Fidelity European Values PLC

Annual Report

For the year ended 31 December 2012

Fidelity
WORLDWIDE INVESTMENT

Contents

Investment Objective and Highlights

The investment objective of the Company is to achieve long term capital growth from the stockmarkets of continental Europe

The full text of the Company's investment policy is on pages 15 and 16.

Performance (year to 31 December 2012)

Net Asset Value ("NAV") per Share Total Return	+24.7%
Share Price Total Return	+31.3%
FTSE World Europe (ex UK) Index Total Return	+17.8%

As at 31 December 2012

Equity Shareholders' Funds	£616.3m
Market Capitalisation	£555.0m
Final Dividend Proposed Per Ordinary Share	27.75p
Capital Structure: Ordinary Shares of 25p each	43,127,073

Standardised Performance Total Return (%)	01/01/2012 to 31/12/2012	01/01/2011 to 31/12/2011	01/01/2010 to 31/12/2010	01/01/2009 to 31/12/2009	01/01/2008 to 31/12/2008
NAV per share	+24.7	-11.5	+7.1	+11.3	-17.5
Share price	+31.3	-8.6	-1.3	+21.3	-25.9
FTSE World Europe (ex UK) Index[1]	+17.8	-14.7	+5.1	+19.1	-24.6

[1] Data prior to the year ended 31 December 2011 is on a net of tax basis

Sources: Fidelity and Datastream
Past performance is not a guide to future returns

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The Company is a member of the Association of Investment Companies

Financial Summary

	2012	2011
Assets at 31 December		
Total portfolio exposure[1]	£684.9m	£561.9m
Shareholders' funds	£616.3m	£517.6m
Total portfolio exposure in excess of shareholders' funds (Gearing percentage)	11.1%	8.6%
NAV per share	1,428.97p	1,168.57p
Results for the year to 31 December – see page 33		
Revenue return per ordinary share	27.78p	26.94p
Capital return/(loss) per ordinary share	254.97p	(194.42p)
Total return/(loss) per ordinary share	282.75p	(167.48p)
Final dividend proposed per ordinary share	27.75p	26.50p
Stockmarket data at 31 December		
FTSE World Europe (ex UK) Index[2]	355.63	314.31
Share price at year end	1,287.00p	1,003.00p
Share price year high	1,289.00p	1,287.00p
Share price year low	987.00p	912.00p
Discount at year end	9.9%	14.2%
Discount year high	15.8%	17.1%
Discount year low	9.9%	9.7%
Discount year average	13.6%	14.0%
Returns (includes reinvested income) for the year to 31 December (%)		
NAV per share	+24.7	-11.5
Share price	+31.3	-8.6
FTSE World Europe (ex UK) Index	+17.8	-14.7
Ongoing charges for the year to 31 December (%)		
Ongoing charges[3]	0.98	0.94
Performance fee	0.40	–
Ongoing charges plus performance fee	1.38	0.94

1 The total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs
2 Price index
3 Ongoing charges (excluding finance costs and taxation) based on average net asset values for the reporting year (prepared in accordance with methodology recommended by the Association of Investment Companies). Previously referred to as the "total expense ratio"

Sources: Fidelity and Datastream
Past performance is not a guide to future returns

Chairman's Statement

Humphrey van der Klugt
Chairman

I have pleasure in presenting the Annual Report of Fidelity European Values PLC for the year ended 31 December 2012.

PERFORMANCE

European equities advanced in 2012 following a volatile 2011. After a difficult second quarter, in which anxieties were once again heightened by concerns over the sovereign debt crisis, markets turned a corner in July when European Central Bank ("ECB") President Mario Draghi stated that the ECB would do "whatever it takes" to save the Eurozone. Sentiment improved further after the ECB announced that it had agreed to an unlimited bond purchase programme to lower borrowing costs for some indebted Eurozone nations. Towards the end of the year, risk appetite increased on optimism that US lawmakers would reach an agreement on budget talks to avert the so-called fiscal cliff.

Against this backdrop, I am pleased to report that the net asset value ("NAV") per share of the Company returned 24.7% and outperformed its Benchmark, the FTSE World Europe (ex UK) Index, which returned 17.8%. Stock selection was the prime driver of performance. In particular, holdings in the financials, industrials and healthcare sectors performed well. However, there were some stock specific disappointments, especially in the energy sector, which held back returns. Overall, the focus remains on companies with solid balance sheets and growing dividends. Gearing which was held in a range of 5% - 15% during the year, also aided performance. A detailed review of the performance of the portfolio is provided in the Manager's Review. (All figures are in sterling and are on a total return basis).

DISCOUNT MANAGEMENT

The Board continues to adopt an active discount management policy and share buybacks have been made during the year.

Whilst the primary purpose of our policy is to reduce share price volatility in relation to net asset value, buying in shares at a discount also results in an enhancement to NAV per share.

Your Board has sanctioned share buybacks over the course of 2012 amounting to 2.7% of the issued share capital of the Company, a much lower figure than the 11.6% repurchased in 2011. The great majority of the repurchases took place in the first half of the year whilst markets were weak. Further details may be found in the Directors' Report on page 19.

I am pleased to report that the lower level of share price volatility relative to the NAV apparent in the second half of 2011 has continued into 2012. Furthermore, the level of discount has narrowed from 14.2% at the start of the year to 9.9% at the year end. This has given rise to a share price total return of 31.3% for 2012, ahead of the NAV total return of 24.7%.

Improved sentiment towards continental European equity markets has undoubtedly been a factor behind the narrowing of the discount. Re-establishing our historically good performance record against the Benchmark Index, under Sam Morse's management, has likewise been important.

DIVIDENDS

The Board intends to continue with its practice of paying out earnings in full. The objective is one of long term capital growth and we will not seek to influence the Manager to determine the level of income of your Company's portfolio in any particular year.

The Board has decided to recommend a final dividend of 27.75 pence per share for the year ended 31 December 2012 (2011: 26.50 pence). This dividend will be payable on 24 May 2013 to shareholders on the register at close of business on 15 March 2013 (ex-dividend date 13 March 2013).

The proposed dividend increase for 2012 over 2011 is therefore 4.7%. Whilst we emphasise that the increase is a function of stock selection and cannot be extrapolated into the future, our Portfolio Manager, Sam Morse, continues to focus on companies which are able to grow their dividends as being one of the underlying factors in his stock selection. A further explanation of the investment process can be found on page 16.

PERFORMANCE OVER ONE YEAR, FIVE YEARS AND SINCE LAUNCH TO 31 DECEMBER 2012 (ON A TOTAL RETURN BASIS) (%)

	NAV	Share price	FTSE World Europe (ex UK) Index[1]
One year	+24.7	+31.3	+17.8
Five years	+8.6	+6.6	-5.1
Since launch (1991)	+1,608.6	+1,453.8	+474.3

[1] Data prior to the year ended 31 December 2011 is on a net of tax basis

Sources: Fidelity and Datastream as at 31 December 2012
Past performance is not a guide to future returns

Chairman's Statement

GEARING

The Company gears through the use of long Contracts For Difference ("CFDs"). As at 31 December 2012, the level of gearing was 11.1% and the Board has been working within a range of 5% – 15%. Gearing made a positive contribution to performance during the year, as can be seen from the attribution analysis on page 17.

It is pleasing to note that the move to using CFDs as a means of gearing the portfolio, introduced in 2011 in place of traditional bank loans, has been positive. Operationally it has worked smoothly and it has been significantly cheaper for the Company, with finance costs reducing from £2,617,000 in 2011 to just £326,000 in 2012; and this in spite of gearing levels actually on average being higher in 2012.

PERFORMANCE FEES

Investment performance was strong during the year and a performance fee is payable, all cumulative past underperformance against the Benchmark Index having been made good. The base fee paid and payable to the Manager is charged fully against revenue. The performance fee is charged against capital. Further details are included in the Directors' Report on page 19.

DIRECTORATE

Simon Duckworth will step down from the Board at the conclusion of the business of the Annual General Meeting on 16 May 2013. Simon has served on the Board for just over 10 years and on behalf of the Board I would like to take this opportunity to thank him for his invaluable contribution to the Company. We wish him well in his future endeavours. In preparation for this, I am delighted to confirm that Marion Sears was appointed a non-executive Director of the Company on 17 January 2013 following a search using an external agency. Marion has extensive commercial and investment experience and is currently the Senior Independent non-executive Director of Dunelm Group plc, and a non-executive Director of Octopus AIM VCT plc and Persimmon plc. Further details are included in her biography on page 14.

In accordance with the UK Corporate Governance Code for Directors of FTSE 350 companies the entire Board is subject to annual election and re-election. The Directors' biographies can be found on page 14. The Directors have a wide range of appropriate skills and experience to make up a balanced board for your Company. With the exception of Simon Fraser, in the opinion of the Board, all other Directors are independent.

Simon Fraser, due to his previous employment relationship with the Manager and his directorship of another investment trust managed by Fidelity, namely Fidelity Japanese Values PLC, is deemed non-independent by the UK Corporate Governance Code. The Board is convinced that Simon Fraser's experience serves the Company well; and the Directors support unanimously his continued position as a Director of the Company.

In line with good corporate governance, the Board had an independent, externally facilitated assessment of its performance during 2012. The evaluation reported that the performance and contribution of the Board was effective and all Directors were committed to their roles. There were no areas of concern reported.

The Board has considered the proposals for the election and re-election of all of the Directors and recommends to shareholders that they vote in favour of the proposals.

CONTINUATION VOTE

In accordance with the Articles of Association of the Company, an ordinary resolution that the Company continue as an investment trust for a further two years was passed at the 2011 Annual General Meeting. A further continuation vote will take place at this year's Annual General Meeting. The Company's performance record has been excellent since launch with a NAV increase of 1,608.6% compared to an increase in the Benchmark Index of 474.3% (on a total return basis). During the past 12 months the Company's NAV has outperformed the Index by 6.9% on a total return basis and is also ahead of the Index over 3, 5 and 10 years. Therefore your Board recommends that shareholders vote in favour of the continuation vote. A further continuation vote will take place at the Annual General Meeting in 2015.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Fidelity's offices at 25 Cannon Street, London EC4M 5TA (St Paul's or Mansion House tube stations) on Thursday 16 May 2013 at midday. Full details of the meeting are given on pages 55 to 57 and I look forward to talking with as many shareholders as possible on this occasion.

CONCLUSION

Investors who stayed the course in continental European equities have been rewarded with an excellent year. Indeed, Europe was one of the strongest areas for equity investment in 2012.

There are a large number of high quality companies quoted on continental European bourses, many also with extensive businesses in Asia and around the world. Value will 'out'; such stocks had become overly depressed by the waves of poor sentiment surrounding the political situation in Europe, low economic growth and budget deficits which have to be financed, high unemployment especially in Southern Europe and of course the Euro.

Whilst equities have regained poise, the outlook for earnings and dividend growth is generally muted and one cannot pretend that the underlying political and economic situation in Europe has improved dramatically. It does seem likely that at some point in 2013 some of the worries will once again come to the fore; and it follows that we may well see setbacks and volatility ahead. Our response is to continue to focus on finding and investing in strong companies which offer fundamental value and the prospect of making decent returns from current valuation levels. We are fortunate to have a wide choice of investment opportunities across the region.

Humphrey van der Klugt
Chairman
26 February 2013

Manager's Review

FIL Investments International
The Company is managed by FIL Investments International (which is authorised and regulated by the Financial Services Authority). FIL Investments International is part of the FIL Limited group which, as at 31 December 2012, had total assets under management exceeding £148.7 billion.

Sam Morse (Portfolio Manager from 1 January 2011)
Sam is a portfolio manager with FIL Investments International based in London. Sam has more than 25 years' investment experience. He also manages the Fidelity European Fund.

PERFORMANCE REVIEW

As shown in the Financial Summary on page 2, the NAV per share of the Company returned 24.7% in the year to 31 December 2012, outperforming the FTSE World Europe (ex UK) Index, which returned 17.8%. (All performance figures are quoted on a total return basis and in sterling).

MARKET BACKGROUND

2012 was a much better year for the European markets.

The turning point, in terms of confidence, came in July, when Mario Draghi, President of the European Central Bank ("ECB"), reassured market participants by stating that the ECB would act as the lender of last resort to highly indebted sovereign states to limit the risk of any nation exiting the Eurozone. His plan, titled "outright monetary transactions" ("OMT"), envisaged unlimited purchases of short-dated sovereign bonds but only on the proviso that new borrowers (such as Spain or Italy) would have to commit to a programme to improve their deficit and debt outlook while existing borrowers (such as Greece, Portugal and Ireland) would have to demonstrate access to credit markets. No action on OMT was required in the second half of the year. Draghi's re-assuring words were sufficient to bring down sovereign bond yields in Spain and Italy, quite dramatically, giving local politicians hope that they could avoid signing up to a programme with fiscal conditions imposed by the ECB.

Before July, the sovereign debt crisis had reared its ugly head again, when it became clear that global growth was likely to slow as the fiscal cliff approached in the US and as the slowing rate of growth in China, and other emerging economies, became increasingly evident. This dragged markets down in the second quarter, such that almost all the progress of the first quarter was reversed.

Following Draghi's commitment, however, the market enjoyed a strong reversionary rally, despite earnings and dividends continuing to be revised down. Leadership was provided by areas of the market, such as financials and other cyclical sectors, that had hitherto been weak. Lowly valued companies and sectors were re-appraised in a more confident and liquid environment. Telecoms and utilities, however, continued to struggle as dividends were cut. In the end, 2012 ended up being a very rewarding year for investors in European companies. This was not predicted by many at the outset of the year.

PORTFOLIO REVIEW

Your Manager continues to focus on identifying and investing in attractively valued companies, with sound balance sheets, which can deliver consistent dividend growth. The portfolio is constructed from the "bottom up"; this means that stock selection drives sector and country positioning rather than the other way around. Your Manager does, however, apply "top-down" risk control to make sure that the Company will not be blown too far off course, relative to its European Benchmark, in the event of a change in the economic or market back-drop.

In 2012, the NAV outperformed a rising Benchmark by around 7%. The bulk of this outperformance came in the first half of the year when the market made little absolute progress; the NAV struggled to keep up with a rapidly rising market in the second half of the year. The strong relative performance, over the whole year, was mainly achieved through stock selection although gearing also contributed.

In terms of stock selection, the key positive contributions came from many different sectors ranging from economy-sensitive financials to the less cyclical healthcare sector. KBC, a Belgian bank, saw a dramatic recovery in its share price as the year progressed as fears of a rescue rights issue waned and as the company demonstrated that it had a growing capacity to pay back capital sourced from the Belgian and Flemish governments. Schibsted, a newspaper company, which has developed a very attractive portfolio of on-line classified websites, enjoyed a significant re-rating as investors began to appreciate the sustainability of growth in some of their major on-line properties such as Finn, Blocket and Leboncoin. Two winners from 2011 repeated their strong performance in 2012. SAP, enjoyed another strong year as new products enhanced the underlying growth of

Manager's Review

their core Enterprise Resource Planning business and Novo-Nordisk performed well too on continuing growth in their insulin franchise and anticipation of a new indication for Victoza in obesity.

Stocks which performed poorly during the year were largely victims of specific issues rather than being dragged down by general concerns about their sector. Swedish Match, a tobacco company, with a dominant smokeless franchise in Scandinavia, performed poorly as the company lost market share in snus in Sweden and appeared to lose pricing power in its premium brand and its value brands by raising the latter's prices. If the competition follows suit, then your Manager expects the shares to perform better. Saipem, a global leader in the oil services industry, based in Italy, suffered as it became apparent that major new oil projects, and cash flows, were being delayed. This was exacerbated when it was announced that Italian prosecutors were investigating possible corruption relating to a gas pipeline project in Algeria leading to the resignation of the chief executive and the suspension of two other Saipem executives. The holding in Saipem was reduced, given the increased risk profile. Finally, Royal Dutch Shell, which is a large holding for your Company, had a lacklustre year in terms of stock market performance, along with many other large integrated oil companies, which did not keep pace with the market rally in the second half of the year. Encouragingly, Royal Dutch Shell has started to grow its dividend, which is covered by its cash flows even in conservative oil-price scenarios, again, from an attractive and above-market level.

OUTLOOK

While not expensive by historical standards, the European equity market is certainly not as cheap as it was a year ago. Share prices have risen handsomely but aggregate dividends paid by European companies have fallen marginally, such that the Benchmark dividend yield of 3.7% at 31 December 2012 is now only at a small premium to longer term averages.

If the market is going to continue on an upward path then dividend growth will have to resume. Such growth may prove elusive because longer term issues such as de-leveraging, rising unemployment and fiscal austerity in some countries, will continue to restrain earnings and dividend growth in Europe. Elections in Italy and, later in the year in Germany will cause some uncertainty too, both for businesses and investors.

Optimists will point out that there has lately been an improvement in business confidence which may, in time, lead to a pick-up in investment, employment and economic growth. Commentators are also becoming more optimistic about the outlook for growth in important economies such as the US and China, which would certainly benefit those European-listed companies that derive much of their revenues from outside Europe. Private clients and savings institutions still hold large balances in cash and bonds; some of this may find its way into equities, if the outlook for growth improves.

What about the Eurozone crisis? Is it really all over? So far Draghi's words have done the trick, in terms of reducing the tail-risk of a Eurozone disintegration, with no real action or OMT required. There is, of course, still a risk that complacency sets in, such that much needed progress on structural reforms and deficit reduction is deferred, risking the possibility that the sovereign debt crisis returns rapidly if global growth stalls again.

To summarise, your Manager is cautiously optimistic about the outlook for your Company but future returns are likely to be more modest than those enjoyed in 2012 given that the starting level is that much higher.

FIL Investments International
26 February 2013

Ten Largest Investments as at 31 December 2012

Ten Largest Investments, including long CFDs The Full Portfolio Listing is set out on pages 53 and 54	Exposure £'000	Fair Value[1] £'000	Total Exposure[2] %
Nestle Packaged food	43,932	43,932	6.4
Sanofi (CFD) Pharmaceuticals	33,314	7,665	4.9
Novo-Nordisk Healthcare services	28,560	28,560	4.2
SAP Software solutions and consultancy	28,431	28,431	4.1
UBS Financial services	25,861	25,861	3.8
Schneider Electric (CFD) Electricity distribution and automation management	23,000	3,153	3.3
Zurich Insurance Group Financial services	20,394	20,394	3.0
Royal Dutch Shell Oil and gas	20,054	20,054	2.9
Umicore Materials technology	18,400	18,400	2.7
BNP Paribas (CFD) Financial services	17,808	1,328	2.6
Ten Largest Investments (2011: 36.8%)	259,754	197,778	37.9
Other Investments – 47 holdings (2011: 63.2%)	425,120	399,861	62.1
Total Portfolio (including long CFDs)	684,874	597,639	100.0

1 Fair value represents the carrying value in the Balance Sheet on page 35
2 % of the total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs

Distribution of the Portfolio as at 31 December 2012

Portfolio, including long CFDs	France	Switzerland	Germany	Belgium	Denmark	Italy	Norway	Netherlands	Sweden	UK	Other	Total 2012[1]	Index 2012[2]	Total 2011
Financials														
Banks	2.6	3.8	–	1.7	–	1.1	1.3	–	–	–	1.2	11.7	12.7	9.4
Non-Life Insurance	–	3.0	–	–	–	–	0.4	–	–	–	2.1	5.5	5.5	5.7
Financial Services	–	1.9	1.6	–	–	–	–	–	–	1.8	–	5.3	1.3	4.2
Life Insurance	–	–	–	–	–	–	–	–	–	–	–	–	1.2	1.5
Real Estate Investment Trusts	–	–	–	–	–	–	–	–	–	–	–	–	0.7	–
Real Estate Investment & Services	–	–	–	–	–	–	–	–	–	–	–	–	0.3	–
	2.6	8.7	1.6	1.7	–	1.1	1.7	–	–	1.8	3.3	22.5	21.7	20.8
Consumer Goods														
Food Producers	–	6.4	–	–	–	–	–	–	–	–	–	6.4	6.4	7.5
Beverages	0.5	–	–	2.5	1.5	–	–	–	–	–	–	4.5	3.0	4.6
Personal Goods	2.3	–	1.5	–	–	–	–	–	–	–	–	3.8	4.5	3.1
Tobacco	–	–	–	–	–	–	–	–	2.3	–	0.6	2.9	0.1	3.4
Household Goods and Home Construction	1.1	–	–	–	–	–	–	–	–	–	–	1.1	0.8	–
Automobiles & Parts	–	–	–	–	–	–	–	–	–	–	–	–	4.0	–
	3.9	6.4	1.5	2.5	1.5	–	–	–	2.3	–	0.6	18.7	18.8	18.6
Healthcare														
Pharmaceuticals & Biotechnology	4.9	–	–	–	4.2	–	–	–	–	–	–	9.1	10.5	9.5
Healthcare Equipment & Services	1.7	–	1.3	–	0.5	–	–	–	–	–	–	3.5	1.6	4.5
	6.6	–	1.3	–	4.7	–	–	–	–	–	–	12.6	12.1	14.0
Industrials														
Electronic & Electrical Equipment	3.3	–	–	–	–	–	–	–	–	–	0.4	3.7	1.3	3.3
Support Services	1.3	–	–	–	–	–	–	–	–	1.6	–	2.9	1.0	1.9
Industrial Engineering	–	2.5	–	–	–	–	–	–	–	–	–	2.5	4.4	3.1
Industrial Transportation	–	0.5	–	–	–	1.3	–	–	–	–	–	1.8	1.6	2.3
Aerospace & Defence	–	–	1.5	–	–	–	–	–	–	–	–	1.5	0.7	0.7
Construction & Materials	–	–	–	–	–	–	–	–	–	–	–	–	3.1	–
General Industrials	–	–	–	–	–	–	–	–	–	–	–	–	2.7	–
	4.6	3.0	1.5	–	–	1.3	–	–	–	1.6	0.4	12.4	14.8	11.3
Consumer Services														
Media	2.2	–	0.8	–	–	–	2.4	–	0.5	–	0.7	6.6	1.9	6.9
General Retailers	–	–	0.8	–	–	–	–	–	1.8	–	–	2.6	1.4	2.9
Food & Drug Retailers	–	–	–	–	–	–	–	–	–	–	0.7	0.7	1.2	1.0
Travel & Leisure	0.3	–	–	–	–	–	–	–	–	–	–	0.3	0.7	0.4
	2.5	–	1.6	–	–	–	2.4	–	2.3	–	1.4	10.2	5.2	11.2

Distribution of the Portfolio as at 31 December 2012

Portfolio, including long CFDs	France	Switzerland	Germany	Belgium	Denmark	Italy	Norway	Netherlands	Sweden	UK	Other	Total 2012[1]	Index 2012[2]	Total 2011
Technology														
Software & Computer Services	1.6	–	4.2	–	–	–	–	–	–	–	–	5.8	1.9	5.5
Technology Hardware & Equipment	–	–	–	–	–	–	–	1.9	–	–	–	1.9	1.6	0.8
	1.6	–	4.2	–	–	–	–	1.9	–	–	–	7.7	3.5	6.3
Basic Industries														
Chemicals	–	–	3.3	2.7	–	–	–	–	–	–	–	6.0	7.0	8.1
Industrial Metals & Mining	–	–	–	–	–	–	–	–	–	–	0.7	0.7	1.4	1.4
Forestry & Paper	–	–	–	–	–	–	–	–	–	–	–	–	0.2	–
	–	–	3.3	2.7	–	–	–	–	–	–	0.7	6.7	8.6	9.5
Oil & Gas														
Oil & Gas Producers	–	–	–	–	–	–	–	2.9	–	–	–	2.9	5.1	2.9
Oil Equipment, Services & Distribution	–	–	–	–	–	1.4	–	–	–	–	–	1.4	1.5	2.8
Alternative Energy	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	1.4	–	2.9	–	–	–	4.3	6.6	5.7
Utilities														
Gas, Water & Multi-utilities	–	–	–	–	–	1.4	–	–	–	–	1.1	2.5	2.4	1.5
Electricity	–	–	–	–	–	–	–	–	–	–	1.3	1.3	2.1	1.1
	–	–	–	–	–	1.4	–	–	–	–	2.4	3.8	4.5	2.6
Telecommunications														
Mobile Telecommunications	–	–	–	–	–	–	1.1	–	–	–	–	1.1	1.6	–
Fixed Line Telecommunications	–	–	–	–	–	–	–	–	–	–	–	–	2.6	–
	–	–	–	–	–	–	1.1	–	–	–	–	1.1	4.2	–
Total portfolio exposure, including long CFDs – 2012	21.8	18.1	15.0	6.9	6.2	5.2	5.2	4.8	4.6	3.4	8.8	100.0		
Index – 2012[2]	23.0	19.0	19.0	2.5	2.8	5.5	2.3	5.3	7.1	–	13.5		100.0	
Total portfolio exposure, including long CFDs – 2011	20.1	18.0	14.7	6.3	6.1	5.6	5.0	7.2	6.2	2.4	8.4			100.0

1 Distribution of the Portfolio is shown as a percentage of the total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs

2 FTSE World Europe (ex UK) Index

Summary of Performance

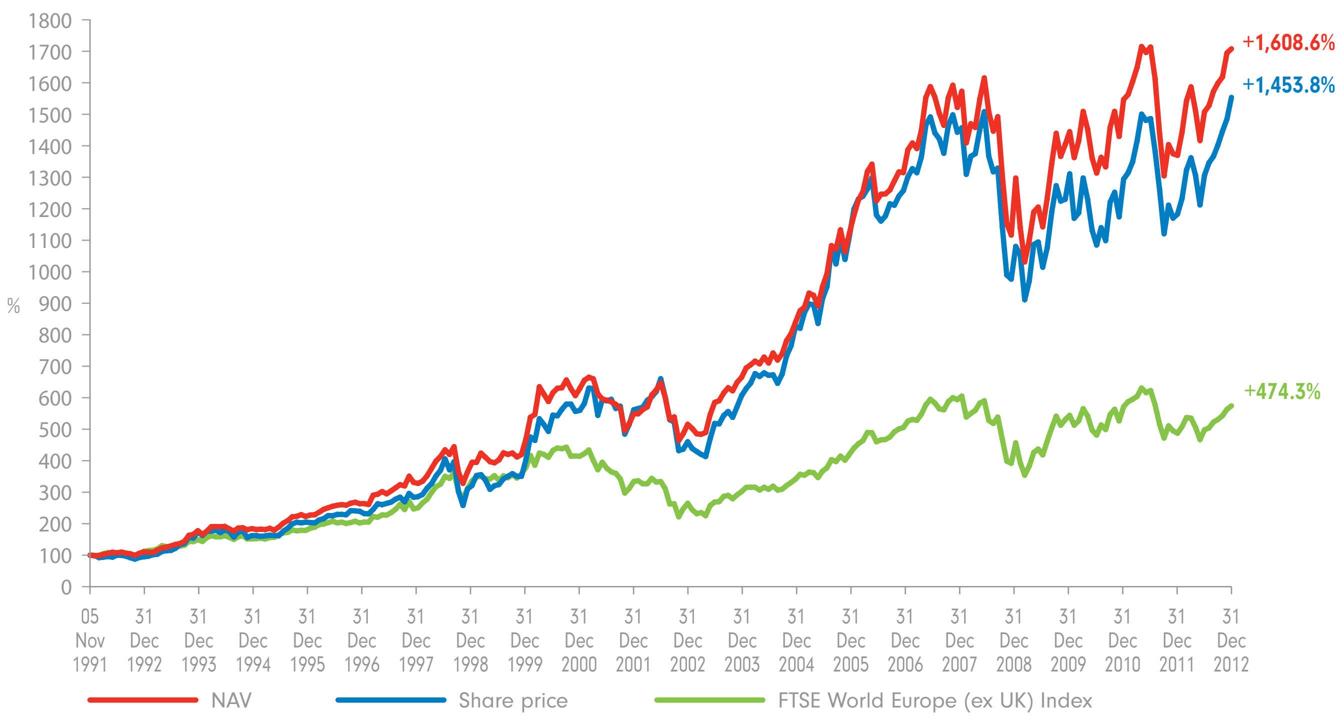
Historical record as at 31 December	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Total portfolio exposure (£m)[1]	685	562	716	742	750	958	906	802	576	471	355
Shareholders' funds (£m)	616	518	661	649	650	855	802	689	513	407	297
NAV per share (p)	1,428.97	1,168.57	1,335.78	1,269.52	1,183.61	1,449.76	1,283.77	1,094.71	815.04	647.43	469.73
Share price (p)	1,287.00	1,003.00	1,113.00	1,151.00	990.00	1,350.00	1,211.00	1,118.00	766.50	589.00	412.00
(Discount)/premium to NAV (%)	(9.9)	(14.2)	(16.7)	(9.3)	(16.4)	(6.9)	(5.7)	2.1	(6.0)	(9.0)	(12.3)
Revenue return per ordinary share (p)	27.78	26.94	15.95	20.59	36.77	13.79	5.34	2.82	1.98	1.93	1.69
Dividend per ordinary share (p)	27.75	26.50	15.75	22.50[2]	23.26[3]	13.75	5.25	2.50	1.75	1.50[2]	1.20
Cost of running the Company (ongoing charges) (%)[4]	0.98	0.94	0.91	0.92	0.89	1.06	1.47	1.55	1.58	1.63	1.51
Gearing percentage (%)[5]	11.1	8.6	4.6	1.0	nil	(1.0)	12.4	16.0	11.5	15.3	17.0
NAV – performance (%)[6]	+24.7	-11.5	+7.1	+11.3	-17.5	+13.4	+17.5	+34.7	+26.2	+38.2	-8.5
Share price performance (%)[6]	+31.3	-8.6	-1.3	+21.3	-25.9	+12.0	+8.6	+46.2	+30.4	+43.3	-22.5
Index performance (%)[6,7]	+17.8	-14.7	+5.1	+19.1	-24.6	+15.1	+19.5	+23.4	+13.2	+29.0	-27.4

1 The total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs. The amounts prior to 2011 represent total assets less current liabilities, excluding the fixed term loan liabilities
2 Interim dividend in respect of the years ended 31 December 2003 and 31 December 2009
3 An additional 13.24p per share was paid by way of a special dividend
4 Total expense ratio to 1 January 2012
5 Total portfolio exposure in excess of shareholders' funds. The amounts prior to 2011 represent total net assets, less loans plus cash at bank and cash funds, in excess of shareholders' funds
6 Total return basis
7 Data prior to the year ended 31 December 2011 is on a net of tax basis

Sources: Fidelity and Datastream
Past performance is not a guide to future returns

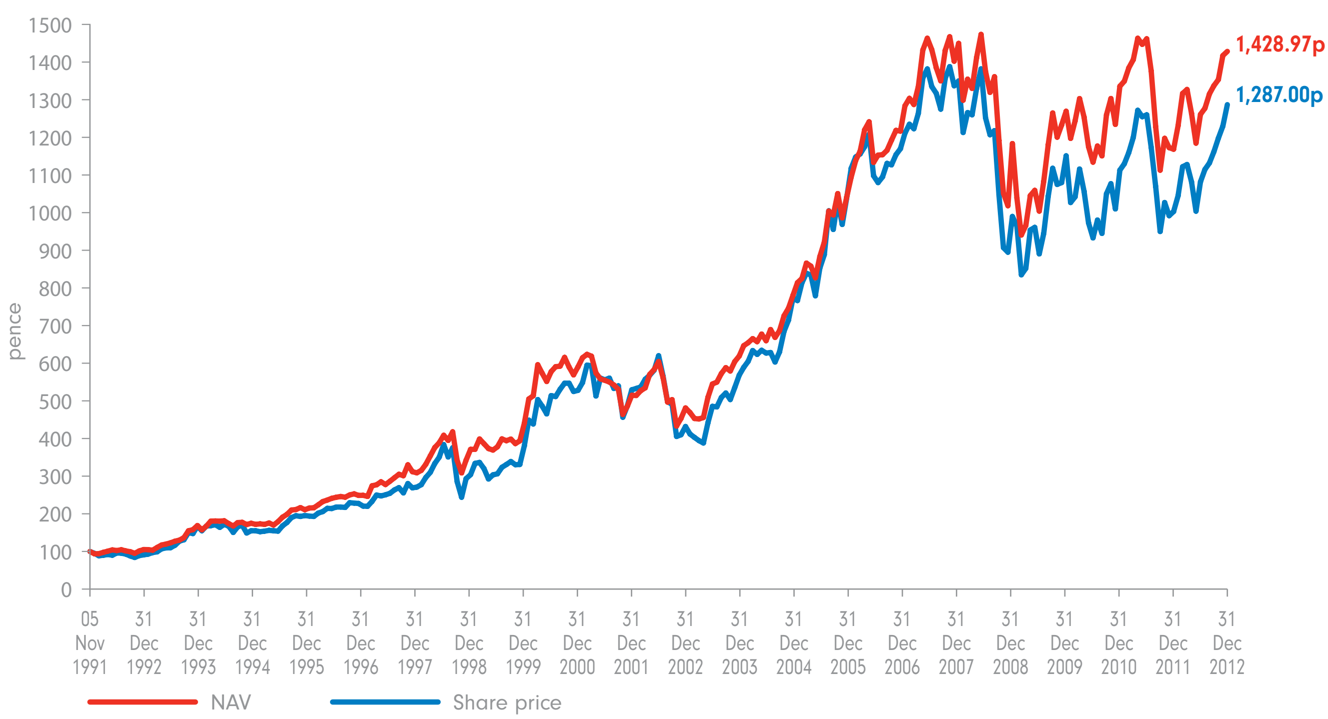
Summary of Performance

Total return performance from launch to 31 December 2012



Prices rebased to 100
Sources: Fidelity and Datastream

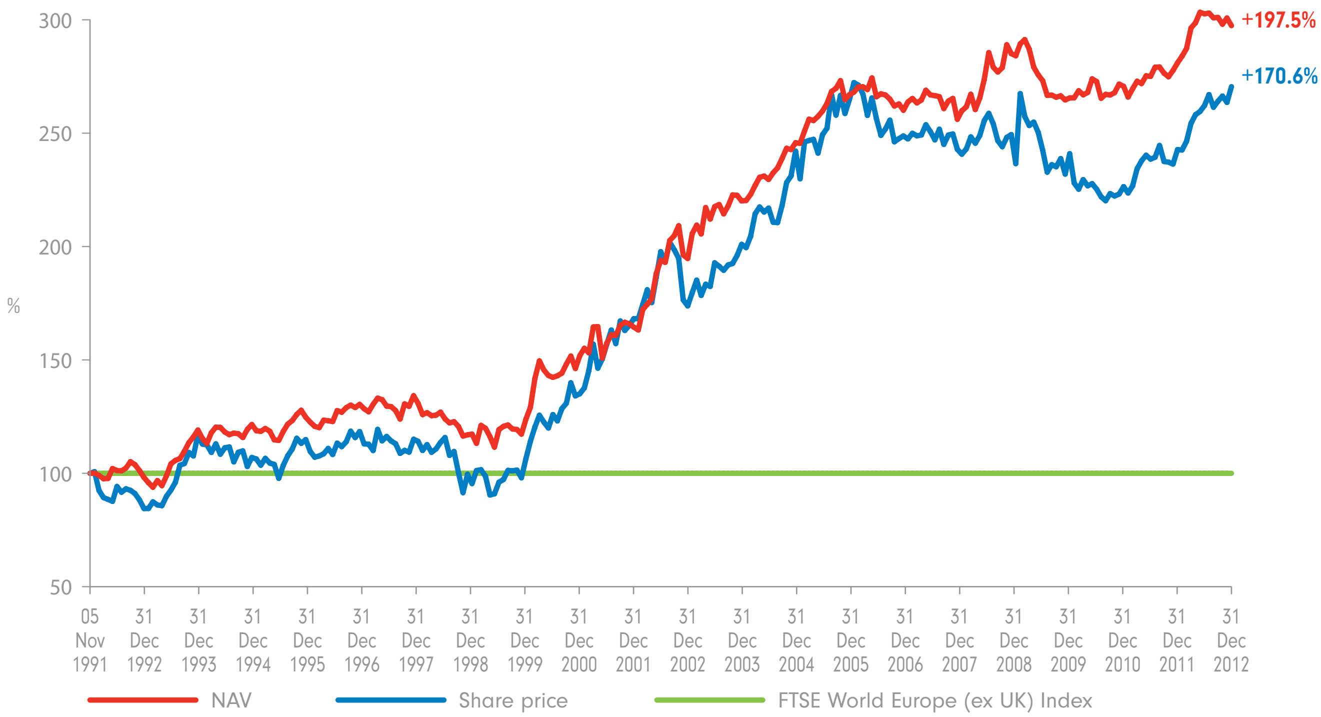
NAV and share price in pence from launch to 31 December 2012



Prices rebased to 100
Sources: Fidelity and Datastream

Summary of Performance

Total return performance relative to the Benchmark Index from launch to 31 December 2012



Prices rebased to 100
Sources: Fidelity and Datastream

Share price (discount)/premium to NAV from launch to 31 December 2012

Based on figures at month end only
Sources: Fidelity and Datastream

Corporate Information

The Company was launched on 5 November 1991 with one warrant attached to every five shares. The original subscription price for each share was £1. In 2013 and every two years thereafter, shareholders have the right to approve, or otherwise, the continued existence of the Company.

The Company is a member of The Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning 020 7282 5555 (email address: enquiries@theaic.co.uk).

PRICE INFORMATION

The mid-market price of the ordinary shares is published daily in the Financial Times under the heading "Investment Companies". The ordinary share price is also published in The Times, The Daily Telegraph and The Independent. You can also obtain current price information by telephoning Fidelity on 0800 41 41 10 (freephone) or FT Cityline on 0905 817 1690 (voice activated service) (calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary). The Reuters code for Fidelity European Values PLC is FEV.L.

NAV INFORMATION

The NAV of the Company is calculated and released to the London Stock Exchange on a daily basis.

CAPITAL GAINS TAX

Your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of ordinary shares and warrants, acquired at the time of the Company's launch, is 95.90p. All UK individuals under present legislation are permitted to have £10,600 of capital gains in the current tax year 2012/2013 (2011/2012: same) before being liable for capital gains tax. Capital gains tax is charged at 18% and 28% dependant on the total amount of taxable income.

MANAGER, SECRETARY AND REGISTERED OFFICE

FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP

FINANCIAL ADVISERS AND STOCKBROKERS

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London
EC4R 2GA

INDEPENDENT AUDITOR

Grant Thornton UK LLP
Chartered Accountants and Registered Auditor
30 Finsbury Square
London
EC2P 2YU

BANKERS AND CUSTODIAN

JPMorgan Chase Bank
(London Branch)
125 London Wall
London
EC2Y 5AJ

REGISTRARS

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR

LAWYERS

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Speechly Bircham LLP
6 New Street Square
London
EC4A 3LX

Board of Directors

HUMPHREY VAN DER KLUGT[1,2]
(date of appointment as Director: 1 June 2007; date of appointment as Chairman: 19 May 2010) is a Chartered Accountant and was previously a Director of Schroder Investment Management Limited. In a 22 year career at Schroders, he was a member of the Group Investment and Asset Allocation Committees. He is a Director of BlackRock Commodities Income Investment Trust plc, Murray Income Trust plc and JPMorgan Claverhouse Investment Trust plc.

JAMES ROBINSON[2,3]
(date of appointment: 1 June 2007) was Chief Investment Officer, Investment Trusts and Director of Hedge Funds at Henderson Global Investors prior to his retirement in 2005. A Chartered Accountant, he has 33 years' investment experience and is currently Chairman of Polar Capital Global Healthcare Growth and Income Trust plc, a director of Aberdeen New Thai Investment Trust PLC, Invesco Asia Trust plc and J P Morgan Elect plc. He is also a Council Member and Chairman of the Investment Committee of the British Heart Foundation.

SIMON FRASER
(date of appointment: 26 July 2002) spent 27 years at Fidelity but retired from his executive responsibilities at the end of 2008. He started his career at Fidelity as an analyst and spent a number of years in Japan, most recently as Chief Investment Officer for the Asia/Pacific region. He returned to the UK in 1999 to take up the position of Chief Investment Officer for Fidelity International, a position he held until 2005. He is Chairman of Foreign and Colonial Investment Trust plc and Merchants Trust plc. He is also a director of Fidelity Japanese Values PLC, Barclays PLC, Barclays Bank PLC and Ashmore Group plc.

ROBIN NIBLETT[2]
(date of appointment: 14 January 2010) has been Director and Chief Executive of Chatham House (the Royal Institute of International Affairs) since 2007. Prior to this he worked for the Center for Strategic and International Studies in Washington, DC, becoming Executive Vice President in 2001 and also serving as Director of its Europe Programme from 2004 to 2006. He is currently vice Chairman of the World Economic Forum's Global Agenda Council on Europe and a Council Member of the Overseas Development Institute.

SIMON DUCKWORTH, DL[2]
(date of appointment: 24 February 2003) has been a member of the City of London Corporation since 2000 where he serves on the Corporation's Policy, Police, Finance and Investment Committees. He currently chairs the Advisory Board of Barings Targeted Return Fund, and is a director of Accumuli PLC, the Association of Police and Crime Commissioners and the Serious Fraud Office (SFO). A member of the Home Office's Economic Crime Co-ordination Board, he is also one of HM's Lieutenants for the City of London, and holds a number of other public and charitable appointments.

MARION SEARS[2]
(date of appointment: 17 January 2013) has been a Senior Independent non-executive Director of the retailers Dunelm Group plc since 2004. She is also a non-executive Director of Octopus AIM VCT plc and Persimmon plc. Previously she was a Managing Director of Investment Banking at JPMorgan and she has served on the boards of Boehringer Ingleheim Ltd, LGC (Holdings) Ltd and Prelude Trust PLC. She has held executive positions at Glaxo, UBS and Baring Brothers.

1 Chairman of the Management Engagement Committee
2 Member of the Audit and Management Engagement Committees
3 Chairman of the Audit Committee and Senior Independent Director

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2012. The Company was incorporated in England and Wales as a public limited company on 16 August 1991 under the name of Legistshelfco No. 112 PLC with the registered number 2638812. The name was changed to Fidelity European Values PLC in September 1991.

BUSINESS AND STATUS

The Company carries on business as an investment trust and has been granted approval as such by HM Revenue & Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010. The Directors are of the opinion that the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that Act.

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and operates as such. It is not a close company and has no employees.

BUSINESS REVIEW

INTRODUCTION

This section of the Directors' Report provides a review of the Company's business and describes the principal risks and uncertainties it faces. An analysis of the performance of the Company during the financial year and the position at the year end is included taking into account its objective, strategy and risks and how these are measured using Key Performance Indicators.

OBJECTIVE, STRATEGY AND PRINCIPAL ACTIVITY

The Company's objective is to achieve long term capital growth from the stockmarkets of continental Europe. The Company aims to achieve this with an actively managed portfolio of investments, consisting primarily of continental European securities. As part of this strategy the Board has delegated the management of the portfolio and other services. The principal activity is to pursue the objective through operating as an investment trust company. The objective, strategy and principal activity have remained unchanged throughout the year ended 31 December 2012.

The Board has reviewed the summary of the year's activities and is in agreement with the indications of likely future developments and the factors likely to affect these which are given in the Chairman's Statement on pages 3 and 4 and in the Manager's Review on pages 5 and 6.

The Board believes that individuals and institutions choose to invest in the Company because the stock selection approach adopted by the Portfolio Manager is considered to be well suited to achieving its objective. Although income has been received by way of dividend payments the emphasis is placed on capital growth. The Board recognises that investing in equities is a long term process and that the Company's returns to shareholders will vary from year to year. Unlike equivalent open-ended investment vehicles, the investment trust structure offers investors a portfolio which may be geared. The Board takes the view that long term returns can be enhanced by the use of gearing.

INVESTMENT POLICY

The Company invests principally in continental European securities with a view to achieving long term capital growth for shareholders. The portfolio is selected by the Manager on the basis of its assessment of the fundamental value available in individual situations. Whilst the Company's overall exposure to individual countries and industry sectors is monitored, the portfolio is not structured primarily on a country or industrial weightings basis, although certain investment restrictions apply in an attempt to diversify risk.

A minimum of 80% of gross assets will be invested in companies from countries which are included in the Benchmark Index (the FTSE World Europe (ex UK) Index) and a maximum of 5% of gross assets may be invested in companies of non-European countries which have some European exposure or connection. A maximum of 10% of the Company's gross assets may be invested in the aggregate of: a) securities not listed on a recognised stock exchange; and b) holdings in which the interest of the Company amounts to 20% or more of the equity capital of any listed company.

The Company will not invest more than 10% of gross assets in any one quoted company at the time of acquisition. A maximum of 5% of the Company's gross assets may be held in unquoted securities in aggregate at any one time.

The Company's normal policy is to be geared in the belief that long term investment returns will exceed the costs of gearing. This gearing will be obtained through the use of borrowing and/ or through the use of Contracts for Difference ("CFDs") to obtain exposure to securities selected by the Manager. The effect of gearing is to magnify the consequence of market movements on the portfolio and if the portfolio value rises the NAV will be positively impacted, but if it falls the NAV will be adversely impacted. The Board is responsible for the level of gearing in the Company and reviews the position on a regular basis.

The aggregate exposure of the Company to equities, as a result of borrowing or under CFDs, will not exceed 130% of the total net assets at the time at which any CFD is entered into or a security acquired. It should be stressed that the majority of the Company's exposure to equities will be through direct investment, not CFDs. In addition, the limits on exposure to individual companies and groups will be calculated on the basis that the Company has acquired the securities to which any CFD is providing exposure.

The maximum amount of cash or cash equivalents held by the Company will be 25% of the Company's total net assets, but this limit will not include any cash or cash equivalent paid as collateral for unrealised losses on CFDs. In practice the cash position will normally be much lower.

Directors' Report

The Board reserves the right to lend stock and/or assets of up to 10% of the Company's total net assets. The Board also reserves the right to hedge the portfolio by way of currency.

A maximum of 10% of the Company's gross assets may be invested in the securities of other investment companies (including listed investment trusts).

The Full Portfolio Listing as at 31 December 2012 is detailed on pages 53 and 54.

FIDELITY'S INVESTMENT MANAGEMENT PHILOSOPHY, STYLE AND PROCESS

The Portfolio Manager's key focus is on identifying attractively-valued companies which exhibit good long term structural growth prospects. The Portfolio Manager prefers companies that he believes can grow their dividend over the next three to five years, as evidence suggests that such companies outperform over the long term.

In order to identify these companies, the Portfolio Manager looks for the following main characteristics:

- positive fundamentals (structural growth prospects, a proven business model);
- the ability to generate cash;
- a strong balance sheet; and
- an attractive valuation.

The Portfolio Manager draws upon the substantial intelligence uncovered by Fidelity's team of pan-European analysts when researching stocks. A great deal of importance is placed on attending company meetings.

Being a bottom up stock picker, the Portfolio Manager aims to generate outperformance through company selection, on a three to five year investment horizon, rather than through sector or country bets.

CORPORATE ENGAGEMENT

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any particularly controversial issues (which are then referred to the Board) it delegates the responsibility for corporate activism and shareholder voting to Fidelity. These activities are reviewed annually.

PREMIUM/DISCOUNT MANAGEMENT: ENHANCING SHAREHOLDER VALUE

The Board seeks authority from shareholders each year to issue new shares at a premium or repurchase shares for cancellation at a discount to the NAV. It will only use these authorities to enhance the net asset value and to protect or improve the premium/discount rating of the shares. Details of share repurchases may be found on page 19 and the Chairman's Statement provides further information on page 3.

KEY PERFORMANCE INDICATORS

The key performance indicators ("KPIs") used to determine the progress and performance of the Company over time and which are comparable to those reported by other investment trusts are set out below.

	Year ended 31 December 2012 %	Year ended 31 December 2011 %	Three years ended 31 December 2012 %
NAV[1,2]	+24.7	-11.5	+18.3
Share price[2]	+31.3	-8.6	+18.5
FTSE World Europe (ex UK) Index[2,3]	+17.8	-14.7	+5.6
Discount to NAV	9.9	14.2	n/a
Gearing percentage	11.1	8.6	n/a
Ongoing charges[1]	0.98	0.94	n/a

1 Calculated in accordance with AIC guidelines
2 Calculated on a total return basis
3 Data prior to the year ended 31 December 2011 is on a net of tax basis

Sources: Fidelity and Datastream
Past performance is not a guide to future returns

The Summary of Performance graphs on pages 11 and 12 indicate the relative historical performance of the Company against its Benchmark Index since launch and the discount or premium to NAV over that period. Some of the Company's KPIs are considered to be beyond the Board's control, however they are measures of the Company's absolute and relative performance and the Board monitors them regularly. Indices and ratios which assist in managing performance and compliance are also reviewed, including the ongoing charges. Expenses are considered regularly at Board meetings and this enables the Board, amongst other things, to review costs and consider any expenditure outside that of its normal operations.

In addition to the KPIs set out above the Board regularly reviews the Company's performance against its peer group of investment trusts. The principal risks and uncertainties section on pages 17 and 18 includes descriptions of other performance indicators, their monitoring and management which are key to the business of the Company. Long term performance is also monitored and the Summary of Performance graphs on pages 11 and 12 show this information.

ATTRIBUTION ANALYSIS

The attribution analysis table below enables contributions from various sources of income and costs to be determined.

Analysis of change in NAV during the year (pence per share)	
Starting NAV 1 January 2012	**1,168.57**
Impact of:	
Index	+249.38
Stock selection	+63.18
Exchange rate	-41.15
Gearing	+25.20
Share repurchases	+6.04
Charges	-16.36
Dividend paid	-26.50
Cash and residual	+0.61
Closing NAV 31 December 2012	**1,428.97**

Sources: Fidelity and Datastream
Past performance is not a guide to future returns

PRINCIPAL RISKS AND UNCERTAINTIES

The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The process is regularly reviewed by the Board in accordance with the Financial Reporting Council's "Internal Control: Revised Guidance for Directors".

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. An internal controls report providing an assessment of risks, together with controls to mitigate these risks, is prepared by the Manager and considered by the Audit Committee.

The Board also determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

Market Risk

The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements, and exchange rate movements. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background are core to the Company's continued success.

Risks to which the Company is exposed and which form part of the market risks category are included in Note 18 to the financial statements on pages 47 to 51 together with summaries of the policies for managing these risks. These comprise: market price risk, liquidity risk, counterparty risk, credit risk and derivative instruments risks.

A key area of risk for the Company remains the fiscal crisis facing some Eurozone countries, although the likelihood of this has decreased, as outlined in the Manager's Review on page 5. If the crisis returns, this could have an adverse impact on asset values and a very severe event in the Eurozone could lead to disruption to markets and operational challenges for market participants. The Manager's businesses in Europe and Asia have been considering the consequences of different Eurozone scenarios for some time, and have developed contingency plans to prepare for a range of possible outcomes.

Performance Risk

The achievement of the Company's performance objective relative to the market requires the application of risk. Strategy, asset allocation and stock selection might lead to underperformance of the Benchmark Index. Management of the risks set out above is carried out by the Board which, at each Board meeting, considers the asset allocation of the portfolio and the risk associated with particular countries and industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

Income/Dividend Risk

The Company's objective is capital growth and, as explained in the Chairman's Statement on page 3, the Portfolio Manager is not constrained in any way to determine the level of income. The Board monitors this risk through the receipt of detailed income reports and forecasts which are considered at each meeting.

Share Price Risk

The price of the Company's shares as well as its discount to NAV, are factors which are not within the Company's total control. Some short term influence over the discount may be exercised by the use of share repurchases at acceptable prices. Details of repurchases during the year are given on page 19. The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board at each of its meetings.

Gearing Risk

The Company has the option to invest up to the total of any loan facilities or to use Contracts for Difference ("CFDs") to invest in equities. The principal risk is that while in a rising market the Company will benefit from gearing, in a falling market the impact would be detrimental. Other risks are that the cost of gearing may be too high or that the term of the gearing inappropriate in relation to market conditions. The Company currently has no bank loans and geared exposure is being achieved through the use of long CFDs. This has reduced the cost of gearing as outlined in the Chairman's Statement and provides greater flexibility. The Board regularly considers gearing and gearing risk and sets limits accordingly. Further details are provided in the Investment Policy.

Tax and Regulatory Risks

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in the Company being subject to tax on capital gains. A breach of other legal and regulatory rules may lead to suspension from listing on the

Directors' Report

Stock Exchange or a qualified audit report. The Board receives regular reports from the Manager confirming regulatory compliance during the year.

There are a number of prospective regulations which could impact the Company. Of greatest significance is the Alternative Investment Fund Managers Directive ("AIFMD"). The implementation date for the Directive is scheduled to be July 2013 but with a transitional period whereby investment trusts will not be required to apply for AIFMD authorisation until July 2014. The Board monitors the changes at each Board meeting and is provided with regular briefings from the Association of Investment Companies as well as details of industry and the Manager's lobbying activities.

Operational Risks

The Company has no employees and relies on a number of third party service providers, principally the Manager, Registrar and Custodian. The Company is dependent on the Manager's control systems and those of its Custodian and Registrar, both of which are monitored and managed by the Manager in the context of the Company's assets and interests on behalf of the Board.

The security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements, among other things, rely on the effective operation of such systems.

The Manager, Registrar and Custodian are subject to a risk-based programme of internal audits by the Manager. In addition, service providers' own internal controls reports are received by the Board and any concerns investigated.

While it is believed that the likelihood of poor governance, compliance and operational administration by third party service providers is low, the financial consequences, for example, of cyber crime, could be serious, including the associated reputational damage to the Company.

Other Risks

A continuation vote takes place every two years. This takes the form of an ordinary resolution to shareholders which requires a simple majority of votes cast in favour to ensure that the Company continues in existence for a further two years until the next continuation vote is put to shareholders. There is a risk that shareholders do not vote in favour of the continuation vote during periods when performance is poor. Further details are provided in the Chairman's Statement, in relation to the next continuation vote and a review of the Company's performance.

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY MATTERS

The Company is managed by FIL Investments International, has no employees and all of its Directors are non-executive, the Company's day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board fully endorses Fidelity's strong procedures which are involved in the making of its investments.

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. FIL Investments International is registered with the Carbon Reduction Commitment Energy Efficiency Scheme administered by the Environment Agency.

The Company's financial reports are printed by a company which has won awards for its environmental awareness and further details of this may be found on the back cover of this report. Financial reports and other publicly available documentation are also available on the Company's website www.fidelity.co.uk/its. Details about Fidelity's own community involvement may be found on its website www.fidelity.co.uk

SOCIALLY RESPONSIBLE INVESTMENT

The Manager's primary objective is to produce superior financial returns to investors. It believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, its investment process takes social, environmental and ethical issues into account when, in its view, these have a material impact on either investment risk or return.

The Manager recognises and supports the view that social, environmental and ethical best practice should be encouraged so long as the potential for financial return is not reduced. It favours companies committed to high standards of CSR and to the principles of sustainable development.

The Manager does not set out to manage an "ethical investment fund" and does not screen out companies from its investment universe purely on the grounds of poor social, environmental or subjective ethical records. Instead it adopts a positive engagement approach whereby social, environmental and ethical matters are discussed with management with the aim of improving procedures and attitudes. The Manager believes that this is the most effective way to improve the attitude of business towards CSR and the Board endorses this approach.

GENERAL

DIVIDENDS

The Directors recommend that a final dividend of 27.75 pence (2011: 26.50 pence) per share be paid on 24 May 2013 to shareholders on the register at the close of business on 15 March 2013 (ex-dividend date 13 March 2013).

SHARE CAPITAL

The Company's issued share capital comprises ordinary shares of 25 pence each. As at 31 December 2012, 43,127,073 shares were in issue (2011: 44,294,946). Each share in issue carries one vote. Deadlines for the exercise of voting rights and details of arrangements by which someone other than the shareholder can exercise voting rights in respect of this year's Annual General Meeting are detailed in the Notes to the Notice of Meeting on pages 56 and 57.

The Company's ordinary shares have a premium listing on the London Stock Exchange.

SHARE ISSUES

No shares were issued during the year (2011: nil) and none have been issued since the year end. The authority to issue shares and dis-apply pre-emption rights, granted by shareholders at the Annual General Meeting held on 16 May 2012, expires at the conclusion of this year's Annual general Meeting and therefore resolutions to renew the authority will be put to shareholders for approval at the Annual General Meeting to be held on 16 May 2013.

SHARE REPURCHASES

At the Annual General Meeting held on 16 May 2012 the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 6,549,332 ordinary shares in the market for cancellation. 1,167,873 ordinary 25p shares were repurchased for cancellation during the year (2011: 5,155,040) representing 2.7% of the issued share capital as at 31 December 2012 (2011: 11.6%) for a total consideration of £12,457,000 (2011: £55,664,000).

The authority to repurchase shares expires on 16 May 2013 and a special resolution to renew the authority in respect of up to 14.99% of the issued share capital as at 26 February 2013 will be put to shareholders for approval at the forthcoming Annual General Meeting.

Since the year end, a further three share repurchases have been made totalling 143,041 ordinary 25p shares. The issued share capital as at 26 February 2013 was 42,984,032.

POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations in the year (2011: nil).

PAYMENT OF CREDITORS

The Company's principal supplier is the Manager who is paid in the month following the end of each calendar quarter in accordance with the terms of the Management Agreement (detailed below). The Company's policy for the year to 31 December 2013 (2012: same) for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the agreed terms of payment. The Company did not have any trade creditors in the year (2011: nil).

MANAGEMENT COMPANY

During the year to 31 December 2012, the Manager, FIL Investments International, a subsidiary of FIL Limited, provided management, accounting, administrative and secretarial services to the Company pursuant to the Management Agreement dated 18 October 2012.

For the year ended 31 December 2012, the Management Agreement provided a quarterly base fee of 0.2125% of net assets (2011: 0.2125% of net assets). The Management Agreement excludes the value of any investment in any other fund which is managed by the Manager or an Associate of the Manager in the calculation of fees. There was no additional company secretarial fee (2011: same). In addition there was an annual performance related fee of 15% (2011: 20%) of any change in net asset value in excess of the returns on the FTSE World Europe (ex UK) Index plus 0.5%.

Both the net asset value and the Benchmark Index are calculated on a total return basis, while the fee is based on the weighted average number of shares in issue.

In the event of underperformance of the NAV relative to the Benchmark Index in any year, no performance fee is payable for a subsequent accounting year unless and until such (and all cumulative) underperformance has been made good. The performance related fee is subject to an upper limit of 1.0% of net assets (2011: 1.5%). If performance is such that the performance related fee would exceed this cap, any excess outperformance would be carried forward and offset against any future underperformance deficit but will not be counted towards future performance related fees. For the year ended 31 December 2012 a performance fee of £2,243,000 was payable (2011: nil).

The Board reviews the services provided by the Manager and also the terms of the Management Agreement on a regular basis. The Management Agreement will continue unless and until terminated by either party giving to the other not less than six months' notice in writing. The Management Agreement may, however, be terminated without compensation if the Company is liquidated in 2013, or in any subsequent year thereafter, pursuant to the procedures laid down in the Articles of Association of the Company.

The Management Agreement may also be terminated forthwith as a result of a material breach of the Agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the agreement by six months' notice if the Manager ceases to be a subsidiary of FIL Limited or if the Board shall resolve at two successive quarterly meetings that there has been a material and continuing underperformance in the portfolio of assets.

The Management Engagement Committee met on 17 January 2013 and reviewed the performance of the Manager for the year to 31 December 2012. Further details of this review are included in the Company's Corporate Governance Statement on page 27. The Committee concluded that it was in the interests of shareholders that the appointment of the Manager should continue.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account. The amount payable for these services for the year to 31 December 2012 was £60,000 (2011: £119,000). An amount of £3,616,000 (2011: £1,350,000) was due to the Manager under the above agreements at 31 December 2012 and is disclosed in Note 12 to the financial statements on page 45. It is made up of performance fee payable £2,243,000 (2011: nil) and £1,373,000 (2011: £1,350,000) included in "other creditors".

Directors' Report

Fidelity has adopted a broker segmentation policy which has reduced the number of brokers used and allows it to concentrate on those brokers who, in its opinion, offer the best service in terms of overall execution. These brokers are Fidelity's "core" brokers. At the same time, the Manager evaluates the research provided by other brokers and uses some of them for their research. These brokers are called Secondary State Research firms ("SSRs"). As a consequence of the policy, the "core" brokers earn a larger percentage of the commission paid. These "core" brokers pay away some of the increased commission earned to the SSRs to compensate them for the research provided to Fidelity. Under FSA regulations this type of payment from one broker to another is currently treated as "softing". The Manager's soft commission policy complies with the UK regulations. Fidelity adopts a best execution policy that applies to all transactions in all instruments, regardless of the fund or account or location of the trading desk.

The Manager has an arrangement with certain brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce transaction costs. Amounts received by the Company under this arrangement are credited to capital. In the year to 31 December 2012, £19,000 was received (2011: £159,000).

There is a regulatory requirement on the Manager to obtain best execution and no individual deal is entered into which prevents compliance with this requirement.

Mr Fraser was employed by the FIL Limited group until the end of December 2008. Mr Fraser is a Director of Barclays PLC and Barclays Bank PLC. Mr Fraser had no influence over the decision by Barclays Bank PLC in its former lending relationship with the Company.

FIL Limited has no interest in shares of the Company (2011: same).

DIRECTORS

Details of the Directors who served during the year to 31 December 2012 are set out on page 14 with a brief description of their careers, each of which indicates their qualifications for Board membership. Further details of the contribution made by the Directors may also be found in the Chairman's Statement on page 4. All of the Directors served throughout the year to 31 December 2012 with the exception of Marion Sears who was appointed as a non-executive Director of the Company on 17 January 2013. Ms Sears was recruited via an external agency which has no other connection with the Company. Mr Duckworth will be resigning as a Director at the conclusion of business at the forthcoming Annual General Meeting.

DIRECTORS' SHAREHOLDINGS

	31 December 2012	31 December 2011
Humphrey van der Klugt	4,000	4,000
Simon Duckworth, DL	2,000	2,000
Simon Fraser[1]	27,022	6,970
Robin Niblett[2]	500	–
James Robinson	3,000	3,000

1 Dividend reinvestment resulted in purchase of 52 ordinary shares and acquisition of 20,000 ordinary shares as shareholder in Triptych SA
2 Purchase of 500 ordinary shares

(All holdings beneficial)

Following her appointment Ms Sears purchased 1,200 ordinary shares on 18 January 2013.

The Board complies with the AIC Code of Corporate Governance requirements for all Directors of FTSE 350 Companies to be subject to annual re-election. Further details on re-election can be found in the Corporate Governance Statement on page 26.

No Director is under a contract of service with the Company and no contracts existed during or at the end of the financial period in which any Director was materially interested and which were significant in relation to the Company's business, except as disclosed previously in relation to Mr Fraser's interest in the Management Agreement and his directorship of Barclays Bank PLC. There have been no other related party transactions requiring disclosure under Financial Reporting Standard 8. The interests of the Directors in the ordinary shares of the Company as at 31 December 2012 and 31 December 2011 are shown above.

Information on the Company's Articles of Association is included in the Corporate Governance Statement on page 29. Any amendments to the Company's Articles of Association must be made by special resolution.

DIRECTORS AND OFFICERS' LIABILITY INSURANCE

In addition to benefits enjoyed under the Manager's global Directors and Officers' insurance arrangements, the Company maintained insurance cover for its Directors and Officers under its own policy as permitted by the Companies Act 2006.

SUBSTANTIAL SHARE INTERESTS

As at 26 February 2013 notification had been received of the following interests in 3% or more of the voting rights of the Company:

Shareholders	
Fidelity ISA and Share Plan	23.87
1607 Capital Partners	7.30
Brewin Dolphin	4.97
Rathbone Brothers PLC[1]	4.87
Legal & General Investment Management[2]	3.29

1 Indirect holding for Rathbone Group companies
2 Direct holding for various Legal & General entities

Analysis of Ordinary Shareholders as at 31 December 2012	% of issued share capital
Private individuals	51.37
Mutual funds	36.28
Pension funds	5.00
Insurance companies	4.81
Hedge funds	2.04
Trading companies	0.50
Total	**100.00**

ANNUAL GENERAL MEETING

THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

At the 2013 Annual General Meeting resolutions will be proposed to renew the Directors' authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire on the date of the Annual General Meeting and will provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. Resolution 11 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £537,300. If passed, this resolution will enable the Directors to allot a maximum of 2,149,200 ordinary shares which represents approximately 5% of the issued ordinary share capital of the Company as at 26 February 2013.

This authority provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. If new ordinary shares are allotted for cash, the Companies Act 2006 requires such new shares to be offered to existing holders of ordinary shares ("pre-emption rights"). In certain circumstances it is beneficial for the Directors to allot shares for cash otherwise than pro rata to existing shareholders and the Companies Act 2006 provides for shareholders to give such power to the Directors by waiving their pre-emption rights.

Resolution 12 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues where practical considerations, such as fractions and foreign securities laws, make this desirable, and (b) other issues up to an aggregate nominal value of £537,300 (approximately 5% of the issued share capital of the Company as at 26 February 2013). The authority to issue ordinary shares for cash under Resolution 11 will, inter alia, enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan and the Fidelity ISA in the event that the ordinary shares are trading at a premium to their net asset value. The Directors would only intend to use this power if they considered that it was in the interests of shareholders to do so.

Resolution 13 is a special resolution which renews the Directors' authority to repurchase the Company's shares for cancellation. It is proposed that the Board be authorised to make arrangements to purchase through the London Stock Exchange up to 6,443,306 ordinary shares of 25 pence each (equivalent to 14.99% of the shares in issue at 26 February 2013). By utilising this power to repurchase shares when they are trading at a discount to net asset value, the Company will increase the resulting net asset value per share for remaining shareholders. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value.

Resolution 14 is an ordinary resolution regarding the continuation of the Company as an investment trust. The Board undertook to give shareholders the opportunity to vote on the continuation of the Company in 2001 and every two years thereafter. Accordingly a resolution for the continuation of the Company as an investment trust will be put to shareholders at the forthcoming Annual General Meeting.

The Board recommends the continuation of the Company.

The full text of the resolutions is set out in the Notice of Meeting contained on pages 55 to 57.

Recommendation: The Board considers that each of the resolutions is likely to promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Directors unanimously

Directors' Report

recommend that you vote in favour of the resolutions as they intend to do in respect of their own beneficial holdings.

CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement on pages 24 to 29. The Corporate Governance Statement forms part of this Directors' Report.

AUDITOR'S RIGHT TO INFORMATION

As required by Section 418 of the Companies Act 2006 the Directors in office as at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Auditor is unaware and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information, and to establish that the Auditor is aware of that information.

AUDITOR'S APPOINTMENT

A resolution to reappoint Grant Thornton UK LLP as Auditor to the Company will be proposed at the forthcoming Annual General Meeting together with a resolution to authorise the Directors to determine the Auditor's remuneration.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out on pages 15 and 16. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial statements and notes thereto on pages 33 to 52. The Company's objectives, policies and processes for managing its capital, financial risk objectives, details and financial instruments and its exposures to credit and liquidity risk are also set out in the Business Review on pages 15 to 18 and in the notes to the financial statements on pages 37 to 52.

The Company's assets consist mainly of securities which are readily realisable. Where outsourcing arrangements are in place, including registrar and custodian services, alternative providers are readily available. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Board receives regular reports from the Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

CONTINUATION VOTE

In accordance with the Articles of Association of the Company, a continuation vote is required every two years. The next continuation vote will take place at this year's Annual General Meeting on 16 May 2013 and the Board recommends voting in favour of the continuation of the Company.

By order of the Board
FIL Investments International
Secretary
26 February 2013

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, including a Business Review, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website www.fidelity.co.uk/its. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their own jurisdictions.

We confirm that to the best of our knowledge the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and the Directors' Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties it faces.

Approved by the Board on 26 February 2013 and signed on its behalf.

Humphrey van der Klugt
Chairman

Corporate Governance Statement

The Company is committed to high standards of corporate governance. Accordingly, the Board has put in place a framework for corporate governance which it believes is appropriate for an investment trust company. This Corporate Governance Statement forms part of the Directors' Report.

AIC CODE

The Board of Fidelity European Values PLC has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses governance issues relevant to investment companies and enables boards to satisfy any requirements they may have under the UK Code of Corporate Governance ("UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders. The AIC Code and the AIC Guide may be found at www.theaic.co.uk

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code and associated disclosure requirements of the Listing Rules except as set out below. The UK Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of Fidelity European Values PLC, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The Company has no separate Nomination & Remuneration Committee and in this respect does not comply with the UK Code principle A.4 and the equivalent AIC Code principle. The reasons for non-compliance are detailed on pages 25 and 26.

THE BOARD AND ITS COMMITTEES

THE BOARD

The Board of Directors has overall responsibility for the Company's affairs and for promoting the long term success of the Company. It delegates through the Management Agreement and through specific instructions the day to day management of the Company to the Manager, FIL Investments International. The Company has no executives or employees. All matters not delegated to the Manager are reserved for the Board's decision. Matters reserved for the Board include, inter alia, decisions on strategy, management, structure, capital, share issues, share repurchases, gearing, financial reporting, risk management, investment performance, share price discount, corporate governance, Board appointments and the appointment of the Manager and the Company Secretary. The Company's investment policy is detailed on pages 15 and 16.

The Board currently consists of six non-executive Directors, five of whom are independent of the Company's Manager and are considered to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Marion Sears was appointed as a non-executive Director on 17 January 2013 and Simon Duckworth will step down from the Board at the conclusion of the Annual General Meeting on 16 May 2013 and the Board will then consist of five non-executive Directors. The Board follows a procedure of notification of other interests that may arise as part of considering any potential conflicts. James Robinson, the Senior Independent Director, fulfils the role as a "sounding board" for the Chairman and as intermediary for the other non-executive Directors where necessary.

Simon Fraser was an employee of the Manager until the end of December 2008 and is therefore not independent. The Board believes it to be an important aspect of the corporate governance of an investment trust company that there should be links with the Manager to ensure that the Manager is party to the responsibility, authority and accountability of the Board to the shareholders. The Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively.

In common with most investment trusts there is no chief executive as the management function has been delegated as set out above and is supervised by the Chairman and the Board. The independent Directors form the membership of the Audit Committee and the Management Engagement Committee.

BOARD BALANCE

The Board aims to have a balance of skills, expertise, independence, length of service and knowledge of the Company represented on the Board. The Directors believe that the Board has an appropriate balance to discharge its duties and provide effective strategic leadership and proper governance of the Company. In particular the Directors have a wide knowledge and experience of fund management, investment trust management and business in Europe. Biographical details of all the Directors are given on page 14 of this report.

The Directors support the recommendations of Lord Davies of Abersoch in his report, "Women on Boards", published in 2011.

The Board carries out its candidate searches with full regard to the benefits of diversity, including gender, drawing from the widest possible pool of talent against a set of objective criteria, and makes its appointments on the basis of merit.

The Board is pleased to announce that Marion Sears was appointed to the Board on 17 January 2013 as a non-executive Director.

Corporate Governance Statement

	Regular Board Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
Humphrey van der Klugt	5/5	3/3	1/1
Simon Duckworth, DL	4/5	2/3	1/1
Simon Fraser	5/5	n/a	n/a
Robin Niblett	5/5	3/3	1/1
James Robinson	5/5	3/3	1/1

Figures indicate those meetings for which each Director was eligible to attend and attended in the year
Regular Board Meetings exclude procedural meetings held to discharge, for example, formal approvals

BOARD MEETINGS

The Board meets formally at least fives times a year and between these meetings there is regular contact with the Manager. Other meetings are arranged as necessary. Additionally, Board Committees and sub-groups meet to pursue matters referred from the Board and the Chairman is in contact with the other Directors regularly without representatives of the Manager being present. The Board ensures that it conducts its business at all times with only the interests of the shareholders in mind and quite independently of any other associations. It endeavours to provide leadership in terms of the direction of the Company.

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the table above gives the attendance record for the formal meetings held in the reporting year to 31 December 2012.

COMPANY SECRETARY

The Company Secretary is a corporate secretary. The appointment of the Company Secretary is a matter for the Board as a whole. The Directors have access to the advice and services of the Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Each of the Directors of the Company is entitled to take independent professional advice, at the Company's expense, in the furtherance of their duties.

SUPPLY OF INFORMATION TO DIRECTORS

The Chairman is responsible for the promotion of a culture of openness and debate, for ensuring that the Directors receive accurate, timely and clear information and for ensuring that there is adequate time available for the discussion of agenda items, particularly strategic issues.

The Board receives in due time information in a form and of a quality appropriate to enable it to discharge its duties. The Board meeting papers are the key source of regular information for the Board, the contents of which are determined by the Board and contain sufficient information on the financial condition of the Company.

Key representatives of the Manager attend each Board meeting, enabling the Board to probe further on matters of concern or seek clarification on certain issues.

The Board has delegated certain of its corporate governance responsibilities to the Audit and Management Engagement Committees, each composed of all the independent Directors.

CHANGES TO THE BOARD

All appointments to the Board and replacements of Directors take place in accordance with the Companies Act, the Company's Articles of Association and the AIC Code. Whilst the independent Directors take the lead in the appointment of new Directors, any proposal for a new Director will be discussed and approved by the whole Board. As a consequence, there is no Nomination Committee. External consultants are used to identify potential candidates.

The Board carries out its candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender.

The terms and conditions of appointment of Directors are available for inspection at the registered office of the Company and will be made available prior to the forthcoming Annual General Meeting.

TRAINING

When a new Director is appointed to the Board, he or she is provided with all relevant information regarding the Company and his or her duties and responsibilities as a Director. In addition, a new Director will receive an induction, spending time with representatives of the Manager whereby he or she will become familiar with the various processes which the Manager considers necessary for the performance of its duties and responsibilities to the Company.

The Company's policy is to encourage Directors to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company and the Chairman reviews and agrees development and training needs with each Director.

Corporate Governance Statement

The Directors also receive regular briefings from, among others, the AIC, the Auditor and the Company Secretary regarding any proposed developments or changes in law or regulations that could affect the Company and/or the Directors.

ELECTION AND RE-ELECTION

As required by company law, all newly appointed Directors stand for election by the shareholders at the Annual General Meeting following their appointment by the Board. In accordance with the AIC Code all Directors are subject to annual re-election due to the Company's status as a FTSE 350 company. Biographical details can be found on page 14. A procedure has been put in place whereby formal letters of appointment, which specify the terms of appointment, are issued to new Directors on appointment and to existing Directors following re-election at the Annual General Meeting. The Board will consider the length of tenure as one of the matters under review during Director evaluations.

PERFORMANCE EVALUATION

A formal and rigorous process for the evaluation of the Board, its Committees and its Directors has been put in place and takes place regularly. The process includes regular discussion and regular written questionnaires, although the format may change from time to time to ensure that the Board does not become complacent in fulfilling a "box-ticking" exercise. If appropriate, interviews are held.

The performance and contribution to the Company of the Chairman and each Director holding office during the year to 31 December 2012 was considered using an external evaluation agency. It has been concluded that in each case the Directors have been effective and that they continue to demonstrate commitment to their roles. The candidature of the Directors seeking election and re-election has been endorsed by the Board as a whole which commends their election and re-election to shareholders. The performance of the Chairman is evaluated by the Board in the Chairman's absence on an annual basis. The Company Secretary and Portfolio Manager also participate in parts of these processes to provide all-round feedback to the Board. The results of these evaluations are discussed by the Board and the process is considered to be constructive in terms of identifying areas for improving the functioning and performance of the Board and action is taken on the basis of the results.

The Board undertakes annual evaluations of itself and its Committees and have agreed that effective from 30 June 2013 the Management Engagement Committee should also be included in this evaluation process in order to assess the effectiveness of the Committee and of the Manager.

DIRECTORS' REMUNERATION

The level of Directors' fees is determined by the whole Board and therefore a separate Remuneration Committee has not been appointed. Directors do not vote on their own fees. These fees take into account the responsibilities, commitment and work involved for the Directors together with the levels of remuneration paid by similar companies.

Since all Directors are non-executive, the Company is not required to comply with the principles of the UK Code in respect of executive directors' remuneration. Directors' fees are disclosed fully in the Annual Report (see the Directors' Remuneration Report on page 30). Levels of fees are considered to be competitive and sufficient to attract and retain the standard of Directors needed to manage the Company successfully. The limit on aggregate fees is governed by the Company's Articles of Association. Shareholdings by Directors are encouraged and the Directors' share interests are disclosed on page 20 of the Directors' Report. The Directors do not receive performance related remuneration.

AUDIT COMMITTEE

The Audit Committee consists of all of the independent Directors and is chaired by Mr Robinson. Mr van der Klugt is a member of the Audit Committee because the Board believes it to be appropriate for all independent Directors to have such responsibility. The Committee meets three times a year and considers that collectively its members have sufficient recent and relevant financial experience to discharge their responsibilities fully.

The Committee's authority and duties are clearly defined in its written terms of reference which are available on the Company's pages of the Manager's website (www.fidelity.co.uk/its). These duties include: responsibility for making recommendations on the appointment, re-appointment and removal of the external Auditor, discussing with the external Auditor the nature and scope of the audit and reviewing the external Auditor's quality control procedures; considering the scope of work undertaken by the Manager's internal audit department; reviewing the Company's procedures for detecting fraud; monitoring the integrity of the financial statements of the Company; reviewing the half-yearly and annual financial statements of the Company prior to their submission to the Board; and reviewing the effectiveness of the internal control system (including financial, operational and compliance controls and risk management). They also include responsibility for reviewing and monitoring the effectiveness of the audit process and the external Auditor's independence and objectivity with particular regard to the provision of non-audit services, taking into consideration relevant UK professional and regulatory requirements and by seeking appropriate disclosures and comfort from the Auditor. The provision of non-audit services is also subject to prior Board approval. No work other than audit was carried out by the Company's Auditor during the year.

The Committee also reviews corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Section 1159 Corporation Tax Act 2010 status), the relationship with and the performance of third party service providers (such as the registrars and custodians) and the risks associated with audit firms withdrawing from the market which is considered in the Committee's risk evaluation and planning.

Corporate Governance Statement

The Audit Committee meets at least three times a year and with the Auditor at least once a year to review these and other appropriate matters.

In the year to 31 December 2012 the Audit Committee discharged its responsibilities by inter alia:

- Reviewing the Company's draft annual and half-yearly financial statements prior to Board approval and reviewing the external Auditor's report on the annual financial statements;
- Reviewing the appropriateness of the Company's accounting policies;
- Reviewing and approving the audit fee and reviewing any non-audit fees payable to the Company's external Auditor;
- Reviewing the external Auditor's terms of engagement including the reappointment or removal of the Auditor as appropriate;
- Reviewing the external Auditor's plan for the audit of the Company's financial statements;
- Reviewing the external Auditor's quality control procedures;
- Reviewing and monitoring the effectiveness of the external audit process and the external Auditor's independence and objectivity;
- Reviewing the overall services provided by the Company's external Auditor;
- Considering the scope of work undertaken by the Manager's internal audit department;
- Reviewing reports on risk and internal controls and reporting to the Board;
- Considering and reconfirming that the Company does not need an internal audit function given that the Company delegates its day to day operations to third parties;
- Reviewing reports on risk and internal controls and reporting to the Board; and
- Reviewing the Company's custody arrangements.

The last review of alternative audit service providers took place in 2006 resulting in a change of audit firm. The Auditor's continued appointment is reviewed each year and audit partners change at least once every five years. There are no contractual obligations that restrict the Committee's choice of Auditor.

MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee consists of all of the independent Directors and is chaired by Mr van der Klugt. The Committee is charged with reviewing and monitoring the performance of the Manager and ensuring that the terms of the Company's Management Agreement are competitive and reasonable for shareholders. This Committee meets at least annually and reports to the Board of Directors, making recommendations where appropriate. The Committee's terms of reference may be found on the Company's pages of the Manager's website (www.fidelity.co.uk/its).

The level of remuneration of the Manager is agreed by the Management Engagement Committee; it relates to the investment management function, on which a percentage of the funds under management is paid. The management fee was renegotiated to include a performance related element with effect from 1 January 2007. This was further renegotiated with effect from 1 January 2012.

The criteria which are taken into consideration in reviewing the performance of the Manager are set out below:

- Quality of team – the skills and particularly the experience of the team involved in managing all aspects of the Company's business;
- Commitment of the Manager to the investment trust business generally and to the Company in particular;
- Managing the Company – in running and controlling the administration, the accounting and the secretaryship of the Company;
- Investment management – portfolio management skills, experience and track record and other investment related considerations including gearing, currencies, hedging, buybacks etc;
- Shareholders – shareholder consciousness and relations, discount management and commitment to the Company's goals; and
- Management Agreement – consideration of fees, notice periods and duties.

The Committee met on 17 January 2013 and reviewed the performance of the Manager for the year to 31 December 2012. The Committee noted the Company's good recent and long term performance record and the commitment, quality and experience of the team which was responsible for the Company. The Committee concluded that it was in the interests of shareholders that the appointment of the Manager should continue. Details of the Management Agreement appear on pages 19 and 20.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

Set out on page 23 is a statement by the Directors of their responsibilities in respect of the preparation of the annual report and financial statements. The Auditor has set out its reporting responsibilities within the Independent Auditor's Report on page 32.

The Board has a responsibility to present a balanced and understandable assessment of annual, half-yearly, other price sensitive public reports and reports to regulators, as well as to provide information required to be presented by statutory requirements. All such reports are reviewed and approved by the Board prior to their issue to ensure that this responsibility is fulfilled.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Company's systems of risk management and internal control and for reviewing their effectiveness. The identification, control and evaluation of risk is assessed quarterly and a regular internal controls report is provided by the Manager. The systems of risk management and internal control are designed to manage rather than eliminate

Corporate Governance Statement

risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The Board has contractually delegated to external agencies, including the Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day-to-day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company.

The Board, assisted by the Manager, has undertaken a regular risk and controls assessment. The business risks have been analysed and recorded in a risk and internal controls report which is regularly reviewed. The Board has reviewed the need for an internal audit function. The Board has decided that the systems and procedures employed by the Manager, including its internal audit function and the work carried out by the Company's external Auditor, provide sufficient assurance that a sound system of internal control which safeguards shareholders' investments and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

The Audit Committee has received and reviewed the report on the effectiveness of the internal controls maintained on behalf of the Company and meets a representative of the Manager's internal audit team at least three times a year. The Chairman of the Audit Committee has direct access to the Manager's internal audit team and vice versa. The Board also receives each year from the Manager a report on its internal controls which includes a report from the Manager's reporting accountants on the control procedures in operation around the investment management and administration processes.

By means of the procedures set out above and in accordance with the Financial Reporting Council's "Internal Control: Revised Guidance for Directors", the Directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and have reviewed the effectiveness of the risk management and internal control systems throughout the year ended 31 December 2012. This process continued to be in place up to the date of the approval of these financial statements and is expected to remain in place for the coming year.

WHISTLE-BLOWING PROCEDURE

Part of the Manager's role in ensuring the provision of a good service pursuant to the Management Agreement includes the ability for employees of Fidelity to raise concerns through a workplace concerns escalation policy (or "whistle-blowing procedure"). Fidelity is committed to providing the highest level of service to its customers and to applying the highest standards of quality, honesty, integrity and probity. The aim of the policy is to encourage employees and others working for Fidelity to assist the Company in tackling fraud, corruption and other malpractice within the organisation and in setting high standards of ethical conduct. This policy is endorsed accordingly.

BRIBERY ACT 2010

The Company is committed to carrying out business fairly, honestly and openly. The Board recognises the benefits this has to reputation and business confidence. The Board, the Investment Manager, the Investment Manager's employees and others acting on the Company's behalf, are expected to demonstrate high standards of behaviour when conducting business.

The Board acknowledges its responsibility for the implementation and oversight of the Company's procedures for preventing bribery, and the governance framework for training, communication, monitoring, reporting and escalation of compliance together with enforcing action as appropriate. The Board has adopted a zero tolerance policy in this regard.

RESPONSIBILITY AS INSTITUTIONAL SHAREHOLDER

The Board has adopted the Manager's Principles of Ownership in relation to investments. These principles include the pursuit of an active investment policy through portfolio management decisions, voting on resolutions at general meetings and maintaining a continuing dialogue with the management of investee companies. The Manager, in its Principles of Ownership, expressly declares that it supports the Financial Reporting Council's Stewardship Code setting out the responsibilities of institutional shareholders and agents.

Further details of the Manager's Principles of Ownership and voting may be found at www.fidelity.co.uk

RELATIONS WITH SHAREHOLDERS

The Chairman is responsible for ensuring that all Directors are made aware of shareholders' concerns and the Chairman, the Senior Independent Director and other Directors have meetings with major shareholders to discuss strategy and governance. The shareholder profile of the Company is regularly monitored and the Board liaises with the Manager and the Company's broker to canvass shareholder opinion and communicate views to shareholders. The Company is concerned to provide the maximum opportunity for dialogue between the Company and shareholders. It is believed that institutional shareholders have proper access to the Manager at any time and to the Board if they so wish. If any shareholder wishes to contact a member of the Board directly they should contact the Company Secretary whose details are given on page 13.

All shareholders, particularly individual shareholders, are encouraged to attend the Annual General Meeting at which there is a presentation of the past year's results and the forthcoming year's prospects, followed by the opportunity to meet the Board and representatives of the Manager.

At general meetings all proxy votes are counted and, except where a poll is called, proxy voting is reported for each resolution after it has been dealt with on a show of hands. Proxy votes are disclosed on the Company's pages of the Manager's website.

Corporate Governance Statement

The Notice of the Annual General Meeting on pages 55 to 57 sets out the business of the meeting and the resolutions dealing with special business are explained more fully in the Directors' Report on pages 21 and 22. A separate resolution is proposed on each substantially separate issue including the annual report and financial statements. The Chairman of the Board and the Chairman of the Audit Committee will be available to answer questions at the Annual General Meeting. The Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting.

THE COMPANY'S ARTICLES OF ASSOCIATION

Changes to the Company's Articles of Association must be made by special resolution.

DISCLOSURE AND TRANSPARENCY RULES

Other information required to be disclosed pursuant to the Disclosure and Transparency Rules has been placed in the Directors' Report on pages 18 to 22 because it is information which refers to events that have taken place during the course of the year. The following is a list of that information:

Directors' shareholdings
Directors and Officers' liability insurance
Going concern
Share capital
Share issues
Share repurchases
Substantial share interests

On behalf of the Board

Humphrey van der Klugt
Chairman
26 February 2013

Directors' Remuneration Report

This report has been prepared in accordance with Sections 420 – 422 of the Companies Act 2006 in respect of the year ended 31 December 2012. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting. The law requires the Company's Auditor to audit certain parts of the disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on page 32.

REMUNERATION

The level of Directors' fees is determined by the whole Board and Directors do not vote on their own fee. The Company's Articles of Association limit the aggregate fees payable to each Director to £50,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil, the time committed to the Company's affairs and the responsibilities and potential liabilities, both financial and reputational. No Director received any bonus, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 December 2012 or the year ended 31 December 2011. Non-executive Directors are not eligible for participation in any performance related fees, bonuses, pension benefits, share options, long term incentive schemes or other benefits. It is intended that this policy will continue for the year ended 31 December 2013 and for subsequent years. The fee structure with effect from 1 July 2012 is as follows: Chairman – £35,000 (2011: £33,000); Chairman of the Audit Committee – £26,000 (2011: £25,000); and Directors – £22,500 (2011: same).

DIRECTORS' SERVICE CONTRACTS

No Director has a service contract with the Company. New Directors are provided with a letter of appointment which, amongst other things, provides that their appointment is subject to the Companies Act 2006 and the Articles of Association of the Company. The Company does not make payments to Directors on termination or compensation upon early termination of appointment.

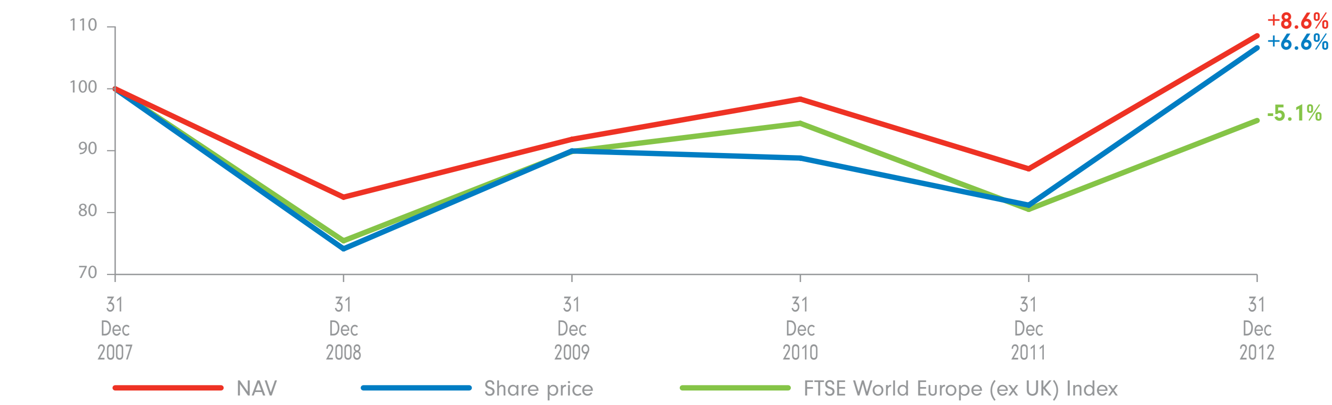
COMPANY PERFORMANCE

The Company's investment objective is capital growth. The graph below measures this against its benchmark, the FTSE World Europe (ex UK) Index.

REMUNERATION OF DIRECTORS (AUDITED)

	2012 fees (£)	2011 fees (£)
Humphrey van der Klugt	34,000	30,000
Simon Duckworth, DL	22,500	21,000
Simon Fraser	22,500	21,000
Robin Niblett	22,500	21,000
James Robinson	25,500	23,000
Total	**127,000**	**116,000**

Performance from 1 January 2008 to 31 December 2012 (on a total return basis)



Basis: bid-bid with net income reinvested
Sources: Fidelity and Datastream
Past performance is not a guide to future returns

On behalf of the Board

Humphrey van der Klugt
Chairman
26 February 2013

Financial Calendar

The key dates in the Company's calendar are:

31 December 2012 – Financial Year End

27 February 2013 – Announcement of Results

March 2013 – Publication of this report

Mid May 2013 – Interim Management Statement (as at 31 March 2013)

16 May 2013 – Annual General Meeting

24 May 2013 – Payment of Dividend

30 June 2013 – Half-Year end

July/August 2013 – Announcement of Half-Yearly Results to 30 June 2013

August 2013 – Publication of Half-Yearly Report

Mid November 2013 – Interim Management Statement (as at 30 September 2013)

Independent Auditor's Report to the Members of Fidelity European Values PLC

We have audited the financial statements of Fidelity European Values PLC for the year ended 31 December 2012 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on page 22, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Julian Bartlett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
27 February 2013

Income Statement for the year ended 31 December 2012

	Notes	2012 revenue £'000	2012 capital £'000	2012 total £'000	2011 revenue £'000	2011 capital £'000	2011 total £'000
Gains/(losses) on investments designated at fair value through profit or loss	9	–	93,403	93,403	–	(94,320)	(94,320)
Gains on derivative instruments held at fair value through profit or loss	10	–	19,630	19,630	–	3,201	3,201
Income	2	18,518	–	18,518	22,831	–	22,831
Investment management and performance fees	3	(4,929)	(2,243)	(7,172)	(5,127)	–	(5,127)
Other expenses	4	(629)	–	(629)	(710)	–	(710)
Exchange losses on other net assets		(76)	(153)	(229)	(73)	(2,639)	(2,712)
Exchange gains on loans		–	–	–	–	1,394	1,394
Net return/(loss) before finance costs and taxation		12,884	110,637	123,521	16,921	(92,364)	(75,443)
Finance costs	5	(326)	–	(326)	(2,617)	–	(2,617)
Net return/(loss) on ordinary activities before taxation		12,558	110,637	123,195	14,304	(92,364)	(78,060)
Taxation on return/(loss) on ordinary activities	6	(503)	–	(503)	(1,511)	50	(1,461)
Net return/(loss) on ordinary activities after taxation for the year		12,055	110,637	122,692	12,793	(92,314)	(79,521)
Return/(loss) per ordinary share	7	27.78p	254.97p	282.75p	26.94p	(194.42p)	(167.48p)

A Statement of Total Recognised Gains and Losses has not been prepared as there are no gains and losses other than those reported in this Income Statement.
The total column of the Income Statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.

The Notes on pages 37 to 52 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2012

	Note	share capital £'000	share premium account £'000	capital redemption reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
Opening shareholders' funds: 1 January 2011		12,362	58,615	3,463	572,985	13,117	660,542
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	(92,314)	12,793	(79,521)
Repurchase of ordinary shares		(1,289)	–	1,289	(55,664)	–	(55,664)
Dividend paid to shareholders	8	–	–	–	–	(7,740)	(7,740)
Closing shareholders' funds: 31 December 2011		11,073	58,615	4,752	425,007	18,170	517,617
Net return on ordinary activities after taxation for the year		–	–	–	110,637	12,055	122,692
Repurchase of ordinary shares		(292)	–	292	(12,457)	–	(12,457)
Dividend paid to shareholders	8	–	–	–	–	(11,578)	(11,578)
Closing shareholders' funds: 31 December 2012		10,781	58,615	5,044	523,187	18,647	616,274

The Notes on pages 37 to 52 form an integral part of these financial statements.

Balance Sheet as at 31 December 2012

Company number 2638812

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments designated at fair value through profit or loss	9	583,938	504,409
Current assets			
Derivative assets held at fair value through profit or loss	10	16,448	4,423
Debtors	11	1,940	887
Fidelity Institutional Liquidity Fund plc		30	31
Cash at bank		20,450	12,371
		38,868	17,712
Creditors – amounts falling due within one year			
Derivative liabilities held at fair value through profit or loss	10	(2,747)	(1,314)
Other creditors	12	(3,785)	(3,190)
		(6,532)	(4,504)
Net current assets		32,336	13,208
Total net assets		616,274	517,617
Capital and reserves			
Share capital	13	10,781	11,073
Share premium account	14	58,615	58,615
Capital redemption reserve	14	5,044	4,752
Capital reserve	14	523,187	425,007
Revenue reserve	14	18,647	18,170
Total equity shareholders' funds		616,274	517,617
Net asset value per ordinary share	15	1,428.97p	1,168.57p

The financial statements on pages 33 to 52 were approved by the Board of Directors on 26 February 2013 and were signed on its behalf by:

Humphrey Van der Klugt
Chairman

The Notes on pages 37 to 52 form an integral part of these financial statements.

Cash Flow Statement for the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Operating activities			
Investment income received		13,165	16,783
Income received on long CFDs		1,162	–
Deposit interest received		53	78
Investment management fee paid		(4,721)	(5,384)
Directors' fees paid		(161)	(107)
Other cash payments		(675)	(494)
Net cash inflow from operating activities	16	8,823	10,876
Finance costs			
Interest paid on long CFDs and bank loans		(335)	(2,606)
Net cash outflow from finance costs		(335)	(2,606)
Overseas taxation recovered		1,106	2,608
Financial investments			
Purchase of investments		(129,219)	(278,237)
Disposal of investments		144,451	372,990
Net cash inflow from financial investments		15,232	94,753
Derivative activities			
Proceeds of long CFD positions closed		9,038	92
Net cash inflow from derivative activities		9,038	92
Dividend paid to shareholders		(11,578)	(7,740)
Net cash inflow before use of liquid resources and financing		22,286	97,983
Cash flow from management of liquid resources			
Fidelity Institutional Liquidity Fund plc		1	21,502
Net cash inflow from management of liquid resources		1	21,502
Net cash inflow before financing		22,287	119,485
Financing			
Repurchase of ordinary shares		(14,055)	(54,354)
Loans repaid		–	(54,418)
Net cash outflow from financing		(14,055)	(108,772)
Increase in cash	17	8,232	10,713

The Notes on pages 37 to 52 form an integral part of these financial statements.

Notes to the Financial Statements

1 ACCOUNTING POLICIES

The Company has prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued by the Association of Investment Companies ("AIC"), in January 2009.

a) Basis of accounting – The financial statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of fixed asset investments and derivative assets and liabilities, and on the assumption that approval as an investment trust continues to be granted by HM Revenue and Customs.

A resolution proposing the continuation of the Company as an investment trust will be put to shareholders at the Annual General Meeting on 16 May 2013. The Directors are recommending that shareholders vote in favour of this resolution. In light of their recommendation and in accordance with Financial Reporting Standard ("FRS") 18 "Accounting Policies", the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. Accordingly the financial statements do not include any adjustments that may arise from a reconstruction or liquidation of the Company. Such adjustments would include expenses of reconstruction or liquidation along with any costs associated with realising the portfolio.

b) Income – Income from equity investments is credited to the Income Statement on the date on which the right to receive the payment is established. Overseas dividends are stated gross of withholding tax. UK dividends are stated at the amount actually receivable, which is net of the attaching tax credit. Interest receivable on short term deposits is credited on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in the capital column of the Income Statement. Derivative income from dividends on long CFDs is included in 'Income' and recognised in the revenue column of the Income Statement.

c) Special dividends – Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case.

d) Expenses and finance costs – All expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement with the exception of any performance fee which is charged wholly to the capital column, as it arises mainly from capital returns on the portfolio. Finance costs are accounted for using the effective interest rate method and in accordance with the provisions of FRS 26 "Financial Instruments: Recognition and Measurement".

e) Taxation – Irrecoverable overseas withholding tax suffered is recognised at the same time as the income to which it relates. Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the Balance Sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred. A deferred taxation asset is recognised when it is more likely than not that the asset will be recoverable.

f) Foreign currency – The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be UK sterling. Transactions denominated in foreign currencies are translated to UK sterling at the rate of exchange ruling as at the date of those transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. All capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in the capital column of the Income Statement.

Notes to the Financial Statements

1 ACCOUNTING POLICIES (continued)

g) Valuation of investments – The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss". They are included initially, at fair value, which is taken to be their cost and subsequently, the investments are valued at fair value, which is measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise at fair value based on published price quotations; and
- Unlisted investments, where there is not an active market, are valued using an appropriate valuation technique so as to establish what the transaction price would have been at the Balance Sheet date.

In accordance with the AIC SORP the Company includes transaction costs, incidental to the purchase or sale of investments, within gains/(losses) on investments and has disclosed them in Note 9 on page 44.

h) Derivative instruments – Some of the Company's exposure to European equities is through the use of long CFDs. The gearing level is monitored and reviewed by the Board on a regular basis.

CFDs are measured at fair value which is the difference between the settlement price of the contract and the fair value of the underlying shares in the contract, which is calculated in accordance with policy 1(g).

Gains and losses in the fair value of the CFDs are included in 'Gains on derivative instruments held at fair value through profit or loss' in the capital column of the Income Statement.

Income received from dividends on long CFDs is included in 'Income' and the finance costs are included in 'Finance costs', in the revenue column of the Income Statement.

i) Fidelity Institutional Liquidity Fund plc – The Company holds an investment in the Fidelity Liquidity Fund plc – Euro Fund (the "Fund"). The Fund invests in low risk short term investments. It is a distributing fund and accordingly the interest earned within the Fund is treated as income.

j) Capital reserve – The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;
- Changes in the fair value of the investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Performance fees;
- Dividends receivable which are capital in nature; and
- Costs of repurchasing ordinary shares.

As a result of technical guidance by the Institute of Chartered Accountants in England and Wales in TECH 02/10 "Distributable Profits", changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as 'capital reserve' in the Reconciliation of Movements in Shareholders' Funds and the Balance Sheet. At the Balance Sheet date all investments held by the Company were listed on a recognised stock exchange and were considered to be readily convertible to cash.

k) Dividends – In accordance with FRS 21 "Events after the Balance Sheet Date" dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

Notes to the Financial Statements

	2012 £'000	2011 £'000
2 INCOME		
Income from investments designated at fair value through profit or loss		
Overseas dividends	15,301	20,518
Overseas scrip dividends	1,435	1,987
UK dividends	570	244
	17,306	22,749
Income from derivative instruments held at fair value through profit or loss		
Dividends on long CFDs	1,162	–
	18,468	22,749
Other income		
Deposit interest	50	46
Income from Fidelity Institutional Liquidity Fund plc	–	36
Total income	18,518	22,831

	2012 £'000	2011 £'000
3 INVESTMENT MANAGEMENT AND PERFORMANCE FEES		
Investment management fee – charged to revenue	4,929	5,127
Performance fee – charged to capital	2,243	–
Total investment management and performance fees	7,172	5,127

A summary of the terms of the Management Agreement is given in the Directors' Report on pages 19 and 20.

Notes to the Financial Statements

	2012 £'000	2011 £'000
4 OTHER EXPENSES		
AIC fees	26	28
Custody fees	118	149
Directors' fees[1]	127	116
Legal and professional fees	88	90
Marketing expenses[2]	60	119
Printing and publication expenses	87	74
Registrars' fees	76	81
Other expenses	26	32
Fees payable to the Company's Auditor		
– for the audit of the annual financial statements[3]	21	20
– for a review of the Management Agreement	–	1
	629	710

1 Details of the breakdown of Directors' fees are provided on page 30 in the Directors' Remuneration Report
2 Marketing expenses in 2012 include the release of £82,000 due to an underspend of the 2011 provision
3 The VAT on fees payable to the Company's Auditor is included in "other expenses"

	2012 £'000	2011 £'000
5 FINANCE COSTS		
Interest paid on long CFDs	326	137
Interest on fixed rate unsecured loans[1]	–	2,480
	326	2,617

1 In 2011 the Company repaid its fixed rate unsecured loans and obtained equivalent exposure to European equities through the use of long CFDs

Notes to the Financial Statements

	2012 revenue £'000	2012 capital £'000	2012 total £'000	2011 revenue £'000	2011 capital £'000	2011 total £'000
6 TAXATION ON RETURN/(LOSS) ON ORDINARY ACTIVITIES						
a) Analysis of the taxation charge/(credit) in the year						
UK corporation tax	–	–	–	–	(50)	(50)
Overseas taxation suffered	2,584	–	2,584	3,799	–	3,799
Overseas taxation recovered	(2,081)	–	(2,081)	(2,288)	–	(2,288)
Current taxation charge/(credit) for the year (see Note 6b)	503	–	503	1,511	(50)	1,461

b) Factors affecting the taxation charge/(credit) for the year
The taxation assessed for the year is lower than the standard rate of UK corporation tax for an investment trust company of 24.5% (2011: 26.5%).

The differences are explained below.

	2012 revenue £'000	2012 capital £'000	2012 total £'000	2011 revenue £'000	2011 capital £'000	2011 total £'000
Net return/(loss) on ordinary activities before taxation	12,558	110,637	123,195	14,304	(92,364)	(78,060)
Net return/(loss) on ordinary activities before taxation multiplied by the standard rate of corporation tax of 24.5% (2011: 26.5%)	3,077	27,106	30,183	3,791	(24,476)	(20,685)
Effects of:						
(Gains)/losses on investments not taxed[1]	–	(27,656)	(27,656)	–	24,426	24,426
Income not included for taxation purposes	(3,838)	–	(3,838)	(5,416)	–	(5,416)
Movement in excess expenses for the year	782	550	1,332	1,650	–	1,650
Overseas taxation	503	–	503	1,511	–	1,511
Overseas taxation relief	(21)	–	(21)	(25)	–	(25)
Current taxation charge/(credit) (see Note 6a)	503	–	503	1,511	(50)	1,461

1 Investment trust companies are exempt from taxation on capital gains if they meet the HM Revenue & Customs criteria set out in Section 1159 of the Corporation Tax Act 2010

c) The Company has unrelieved excess expenses of £11,076,000 (2011: £5,640,000) and unrelieved loan relationship expenses of £5,505,000 (2011: £5,505,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred taxation asset has been recognised.

Notes to the Financial Statements

	2012 revenue	2012 capital	2012 total	2011 revenue	2011 capital	2011 total
7 RETURN/(LOSS) PER ORDINARY SHARE						
Return/(loss) per ordinary share – pence	27.78	254.97	282.75	26.94	(194.42)	(167.48)
Net return/(loss) on ordinary activities after taxation for the year – £'000	12,055	110,637	122,692	12,793	(92,314)	(79,521)

The return/(loss) per ordinary share is based on 43,391,355 ordinary shares (2011: 47,482,953) being the weighted average number of ordinary shares in issue during the year.

	2012 £'000	2011 £'000
8 DIVIDENDS		
Dividend paid:		
Final dividend of 15.75 pence per ordinary share paid for the year ended 31 December 2010	–	7,740
Final dividend of 26.50 pence per ordinary share paid for the year ended 31 December 2011	11,578	–
	11,578	7,740
Dividend proposed:		
Final dividend of 26.50 pence per ordinary share proposed for the year ended 31 December 2011	–	11,578
Final dividend of 27.75 pence per ordinary share proposed for the year ended 31 December 2012 and based on the number of ordinary shares in issue at the date of this report	11,928	–
	11,928	11,578

The Directors have proposed the payment of a final dividend for the year ended 31 December 2012 of 27.75 pence per ordinary share to be paid on 24 May 2013, to shareholders on the register at the close of business on 15 March 2013 (ex-dividend date 13 March 2013).

	2012 £'000	2011 £'000
9 INVESTMENTS		
Investments designated at fair value through profit or loss		
Investments listed on a recognised stock exchange	583,938	504,409

	2012 Listed £'000	2011 Listed £'000
Opening book cost	514,274	594,691
Opening investment holding (losses)/gains	(9,865)	98,856
Opening fair value of investments	504,409	693,547
Movements in the year		
Purchases at cost	130,595	277,250
Sales – proceeds	(144,469)	(372,068)
Sales – (losses)/gains in the year	(7,531)	14,401
Movement in investment holding gains/(losses) in the year	100,934	(108,721)
Closing fair value of investments	583,938	504,409
Closing book cost	492,869	514,274
Closing investment holding gains/(losses)	91,069	(9,865)
Closing fair value of investments	583,938	504,409

	2012 £'000	2011 £'000
Gains/(losses) on investments designated at fair value through profit or loss		
(Losses)/gains on sales of investments in the year	(7,531)	14,401
Investment holding gains/(losses) in the year	100,934	(108,721)
	93,403	(94,320)

The portfolio turnover rate for the year was 25.7% (2011: 47.6%).

Notes to the Financial Statements

9 INVESTMENTS (continued)

	2012 £'000	2011 £'000
Gains/(losses) on investments are shown net of investment transaction costs which are summarised below:		
Purchases	173	440
Sales	121	318
	294	758

10 DERIVATIVE INSTRUMENTS

	2012 fair value £'000	2012 exposure £'000	2011 fair value £'000	2011 exposure £'000
Derivative assets/(liabilities) held at fair value through profit or loss				
Long CFDs – assets	16,448	91,305	4,423	41,163
Long CFDs – liabilities	(2,747)	9,631	(1,314)	16,361
	13,701	100,936	3,109	57,524

	2012 £'000	2011 £'000
Gains on derivative instruments held at fair value through profit or loss		
Gains on long CFD positions closed	9,038	92
Movement in investment holding gains on long CFDs	10,592	3,109
	19,630	3,201

11 DEBTORS

	2012 £'000	2011 £'000
Securities sold for future settlement	18	–
Taxation recoverable	1,728	753
Other debtors	194	134
	1,940	887

Notes to the Financial Statements

	2012 £'000	2011 £'000
12 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR		
Securities purchased for future settlement	3	62
Amount payable on share repurchases	1	1,599
Finance costs payable	15	24
Performance fee payable	2,243	–
Other creditors	1,523	1,505
	3,785	3,190

	2012		2011	
	shares	£'000	shares	£'000
13 SHARE CAPITAL				
Issued, allotted and fully paid ordinary shares of 25 pence each				
Beginning of the year	44,294,946	11,073	49,449,986	12,362
Repurchase of ordinary shares	(1,167,873)	(292)	(5,155,040)	(1,289)
End of the year	43,127,073	10,781	44,294,946	11,073

14 RESERVES

The "share premium account" arose on the issue of ordinary shares. It is not distributable by way of dividend and it cannot be used to fund share repurchases.

The "capital redemption reserve" maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. It is not distributable by way of dividend and it cannot be used to fund share repurchases.

The "capital reserve" reflects realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It is not distributable by way of dividend. It can be used to fund share repurchases.

The "revenue reserve" represents the net revenue surpluses recognised in the revenue column of the Income Statement that have been retained and have not been distributed to shareholders as dividends. It is distributable by way of dividend.

15 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on net assets of £616,274,000 (2011: £517,617,000) and on 43,127,073 (2011: 44,294,946) shares, being the number of ordinary shares in issue at the year end.

Notes to the Financial Statements

	2012 £'000	2011 £'000
16 RECONCILIATION OF NET RETURN/(LOSS) BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Net return/(loss) before finance costs and taxation	123,521	(75,443)
Capital (return)/loss for the year	(110,637)	92,364
Net revenue return before finance costs and taxation	12,884	16,921
Scrip dividends	(1,435)	(1,987)
Increase in other debtors	(60)	(127)
Increase/(decrease) in other creditors	18	(132)
Overseas taxation suffered	(2,584)	(3,799)
Net cash inflow from operating activities	8,823	10,876

	2012 £'000	2011 £'000
17 RECONCILIATION OF NET CASH MOVEMENTS TO MOVEMENT IN NET FUNDS/(DEBT)		
Net funds/(debt) at the beginning of the year	12,402	(30,303)
Net cash inflow	8,232	10,713
Fidelity Institutional Liquidity Fund Plc	(1)	(21,502)
Fixed rate unsecured loan repaid	–	54,418
Foreign exchange movement on other net assets	(153)	(2,318)
Foreign exchange movement on fixed rate unsecured loans	–	1,394
Change in net funds	8,078	42,705
Net funds at the end of the year	20,480	12,402

	2012 £'000	cash flows £'000	exchange movements £'000	2011 £'000
Analysis of net funds				
Cash at bank	20,450	8,232	(153)	12,371
Fidelity Institutional Liquidity Fund plc	30	(1)	–	31
	20,480	8,231	(153)	12,402

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS

MANAGEMENT OF RISK

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Business Review section of the Directors' Report on pages 17 and 18. This Note is incorporated in accordance with Financial Reporting Standard 29 ("FRS 29") "Financial Instruments: Disclosures" and refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise long CFDs; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified by FRS 29 arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, and are summarised in this Note on pages 47 to 51.

MARKET PRICE RISK

Interest rate risk

The Company finances its operations through share capital raised. In addition, the Company has a geared exposure to European equities through the use of long CFDs which incur funding costs and provide collateral in Euros. It is, therefore, exposed to a financial risk as a result of increases in Euro interest rates.

Interest rate risk profile of financial assets and liabilities

The extent to which the Company's assets and liabilities are affected by changes in interest rates is shown below:

	2012 variable interest rate risk £'000	2011 variable interest rate risk £'000
Financial assets		
Fidelity Institutional Liquidity Fund plc	30	31
Cash at bank	20,450	12,371
	20,480	12,402
Financial liabilities		
Gearing through long CFDs	(87,235)	(54,415)
Total net financial liabilities	(66,755)	(42,013)

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

The Company's total return and total net assets can be affected by foreign exchange movements because the Company has income and assets which are denominated in currencies other than the Company's base currency, which is UK sterling.

Three principal areas have been identified where foreign currency risk could impact the Company:

- Movements in foreign exchange rates affecting the value of investments and long CFDs;
- Movements in foreign exchange rates affecting short term timing differences; and
- Movements in foreign exchange rates affecting the income received.

The Company does not currently hedge the UK sterling value of investments, long CFDs and other net assets which are priced in other currencies by the use of derivative instruments.

The Company might also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is bought or sold and the date when settlement of the transaction occurs. Income denominated in foreign currencies is converted to UK sterling on receipt.

Currency exposure of financial assets

The Company's financial assets comprise equity investments, long CFDs, short term debtors and cash. The currency profile of these financial assets is shown below.

	2012				
	investments designated at fair value through profit or loss £'000	exposure to long CFDs £'000	short term debtors £'000	cash[1] £'000	total £'000
Czech koruna	3,982	–	–	–	3,982
Danish krone	42,034	–	–	–	42,034
Euro	305,610	100,936	1,607	30	408,183
Norwegian krone	36,431	–	101	–	36,532
Swedish krona	31,579	–	–	–	31,579
Swiss franc	128,098	–	–	–	128,098
Turkish lira	8,160	–	–	–	8,160
UK sterling	23,129	–	214	20,450	43,793
US dollar	4,915	–	18	–	4,933
	583,938	100,936	1,940	20,480	707,294

[1] Included in the cash balance are amounts held in the Fidelity Institutional Liquidity Fund plc and cash at bank.

18 FINANCIAL INSTRUMENTS (continued)

	2011				
	investments designated at fair value through profit or loss £'000	exposure to long CFDs £'000	short term debtors £'000	cash[1] £'000	total £'000
Czech koruna	4,102	–	–	–	4,102
Danish krone	34,261	–	–	–	34,261
Euro	270,066	57,524	217	12,397	340,204
Norwegian krone	28,258	–	–	–	28,258
Swedish krona	35,057	–	–	–	35,057
Swiss franc	101,110	–	488	–	101,598
Turkish lira	6,565	–	–	–	6,565
UK sterling	13,597	–	182	5	13,784
US dollar	11,393	–	–	–	11,393
	504,409	57,524	887	12,402	575,222

[1] Included in the cash balance are amounts held in the Fidelity Institutional Liquidity Fund plc and cash at bank.

Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves and it has a geared exposure to European equities through the use of long CFDs.

The Company's financial liabilities comprise long CFDs and other short term creditors. The currency profile of these financial liabilities is shown below:

	2012		
	exposure to long CFDs £'000	short term creditors £'000	total £'000
Euro	87,235	16	87,251
UK sterling	–	3,769	3,769
	87,235	3,785	91,020

	2011		
	exposure to long CFDs £'000	short term creditors £'000	total £'000
Euro	54,415	86	54,501
UK sterling	–	3,104	3,104
	54,415	3,190	57,605

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS (continued)

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Manager is responsible for actively monitoring the existing portfolio selected in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

LIQUIDITY RISK

The Company's assets mainly comprise readily realisable securities and long CFDs, which can be sold easily to meet funding commitments if necessary. Short term flexibility is achieved by the use of overdraft facilities as required.

COUNTERPARTY RISK

All securities and derivative instruments are transacted with brokers and carry the risk that the counterparty to a transaction may not meet its financial obligations. All counterparties for any type of trading are assessed by an independent Credit Research and Analysis function. Exposures to counterparties are monitored and reported frequently. Margin on exchange-traded derivatives mitigates counterparty risk exposure in accordance with the terms outlined in market standard (ISDA) derivative legal contracts.

CREDIT RISK

Investments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with a large number of brokers and are settled on a delivery versus payment basis. Limits are set on the amount that can be due from any one broker. All security transactions are through brokers which have been approved as an acceptable counterparty. This is reviewed on an ongoing basis. At the year end, the exposure to credit risk includes cash at bank, outstanding securities transactions and the CFDs at fair value.

DERIVATIVE INSTRUMENTS RISK

The risks and risk management processes which result from the use of derivative instruments are included within the other risk categories disclosed in this Note on pages 47 to 50.

Derivative instruments are used by the Manager to gain unfunded long exposure to equity markets, sectors or single stocks. "Unfunded" exposure is exposure gained without an initial outflow of capital.

The risk and performance contribution of these instruments to the Company's portfolio is overseen by a specialist derivative instruments team which draws on over forty years of specialist experience in derivative risk management. This team uses sophisticated portfolio risk assessment tools to advise the Manager on portfolio construction.

RISK SENSITIVITY ANALYSIS

Investments exposure sensitivity analysis

An increase of 10% in the fair value of investments at 31 December 2012 would have increased total net assets and total return on ordinary activities by £58,394,000 (2011: £50,441,000). A decrease of 10% would have had an equal but opposite effect.

Derivative instruments exposure sensitivity analysis

The Company invests in long CFDs to gain exposure to the equity markets. An increase of 10% in the price of shares underlying the CFDs at 31 December 2012 would have increased total net assets and total return on ordinary activities by £10,094,000 (2011: £5,752,000). A decrease of 10% would have had an equal but opposite effect.

Interest rate risk sensitivity analysis

If the Company's exposures at 31 December 2012 to bank balances, including amounts held in the Fidelity Institutional Liquidity Fund plc, and long CFDs were held throughout the year, with all other variables held constant, then if interest rates increased by 0.25%, total net assets and total return on ordinary activities would have decreased by £167,000 (2011: decrease £105,000). A decrease in the interest rates by 0.25% would have had an equal but opposite effect.

Notes to the Financial Statements

18 FINANCIAL INSTRUMENTS (continued)

Foreign currency risk sensitivity analysis

At 31 December 2012, if the UK sterling exchange rate had strengthened or weakened by 10% in relation to the larger currency exposures held by the Company, with all other variables held constant, total net assets and total return on ordinary activities would have (decreased)/increased by the amounts shown below.

If the UK sterling exchange rate had strengthened the net impact would have been:

	2012 £'000	2011 £'000
Danish krone	(3,821)	(3,115)
Euro	(37,106)	(30,920)
Norwegian krone	(3,321)	(2,569)
Swedish krona	(2,871)	(3,187)
Swiss franc	(11,645)	(9,236)

If the UK sterling exchange rate had weakened the net impact would have been:

	2012 £'000	2011 £'000
Danish krone	4,670	3,807
Euro	43,352	37,791
Norwegian krone	4,059	3,140
Swedish krona	3,509	3,895
Swiss franc	14,233	11,289

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As explained in Note 1(g) and 1(h) on page 38, investments are stated at fair value, which is bid or last market price, and long CFDs are stated at fair value, which is the difference between the settlement price and the value of the underlying shares in the contract. Other financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. In the case of cash, book value approximates to fair value due to the short maturity of the instruments.

FAIR VALUE HIERARCHY

Under FRS 29 financial companies are required to disclose the fair value hierarchy that classifies financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

The valuation techniques used by the Company are explained in Accounting Policies Note 1(g) and 1(h) on page 38.
All investments and derivative instruments held by the Company at 31 December 2012 are considered to fall within Level 1, with the exception of £13,701,000 (2011: £3,109,000) of long CFDs which fall within Level 2.

Notes to the Financial Statements

19 CAPITAL MANAGEMENT

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its gearing, which is managed via the use of long CFDs, and its issued share capital and reserves which are disclosed in the Balance Sheet on page 35. It is managed in accordance with the Company's investment policy in pursuit of its investment objective, which is detailed on pages 15 and 16 of the Directors' Report. The principal risks and their management are disclosed on pages 17 and 18.

20 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments as at 31 December 2012 (2011: none).

21 RELATED PARTY TRANSACTIONS

The Directors have complied with the provisions of Financial Reporting Standard 8 "Related Party Disclosures", which requires disclosure of related party transactions and balances. FIL Investments International is the Manager and Secretary of the Company and details of the services provided and fees paid are given on page 19. Fees paid to the Directors are disclosed in the Directors' Remuneration Report on page 30.

Full Portfolio Listing as at 31 December 2012

Portfolio, including long CFDs	Exposure £'000	Fair Value[1] £'000	Total Exposure[2] %
Nestle	43,932	43,932	6.4
Sanofi (CFD)	33,314	7,665	4.9
Novo-Nordisk	28,560	28,560	4.2
SAP	28,431	28,431	4.1
UBS	25,861	25,861	3.8
Schneider Electric (CFD)	23,000	3,153	3.3
Zurich Insurance Group	20,394	20,394	3.0
Royal Dutch Shell	20,054	20,054	2.9
Umicore	18,400	18,400	2.7
BNP Paribas (CFD)	17,808	1,328	2.6
Anheuser-Busch InBev (CFD)	17,183	4,302	2.5
Schindler Holding	16,887	16,887	2.5
Schibsted	16,397	16,397	2.4
Swedish Match	16,071	16,071	2.3
Christian Dior	15,468	15,468	2.3
Sampo	14,113	14,113	2.1
GAM Holding	13,263	13,263	1.9
Linde	12,971	12,971	1.9
ASML Holding	12,868	12,868	1.9
3I Group	12,306	12,306	1.8
KBC Group	12,129	12,129	1.8
Hennes & Mauritz	12,047	12,047	1.8
Essilor International	11,771	11,771	1.7
Iliad Group	11,081	11,081	1.6
Deutsche Boerse	10,825	10,825	1.6
Intertek Group	10,824	10,824	1.6
SES	10,605	10,605	1.5
Hugo Boss	10,347	10,347	1.5
Carlsberg	10,299	10,299	1.5
MTU Aero Engines	10,262	10,262	1.5
Snam Rete Gas	9,756	9,756	1.4
Symrise	9,656	9,656	1.4
Saipem (CFD)	9,631	(2,747)	1.4
DNB	9,289	9,289	1.4
Fresenius Medical	9,190	9,190	1.3
Atlantia	9,011	9,011	1.3
Edenred	8,799	8,799	1.3
Red Electrica	8,687	8,687	1.3
Turkiye Garanti Bankasi	8,160	8,160	1.2
Telenor	7,733	7,733	1.1
BIC	7,714	7,714	1.1

Full Portfolio Listing as at 31 December 2012

Portfolio, including long CFDs	Exposure £'000	Fair Value[1] £'000	Total Exposure[2] %
Enagas	7,615	7,615	1.1
Intesa Sanpaolo[3]	7,485	7,485	1.1
GFK	5,582	5,582	0.8
Fielmann	5,432	5,432	0.8
Vale	4,915	4,915	0.7
Jeronimo Martins & Filho	4,835	4,835	0.7
DKSH Holding	4,598	4,598	0.7
Ipsos	4,566	4,566	0.7
Philip Morris	3,982	3,982	0.6
Modern Times Group	3,461	3,461	0.5
Remy Cointreau	3,285	3,285	0.5
William Demant Holding	3,174	3,174	0.5
Kuehne & Nagel International	3,162	3,162	0.5
Storebrand	3,012	3,012	0.4
Vacon	2,678	2,678	0.4
Bains de Mer Monaco	1,995	1,995	0.2
Total portfolio (including long CFDs)	684,874	597,639	100.0

1 Fair value represents the carrying value in the Balance Sheet on page 35
2 % of the total exposure of the investment portfolio, including exposure to the investments underlying the long CFDs
3 Includes ordinary and non-convertible savings shares

GEARING

	2012 £'000	2011 £'000
Investments at fair value	583,938	504,409
Exposure to long CFDs	100,936	57,524
Total portfolio exposure	684,874	561,933
Shareholders' funds	616,274	517,617
Total portfolio exposure in excess of shareholders' funds	11.1%	8.6%

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity European Values PLC will be held at 25 Cannon Street, London EC4M 5TA on 16 May 2013 at 12 noon for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 December 2012.

2. To approve a final dividend.

3. To re-elect Mr Humphrey van der Klugt as a Director.

4. To re-elect Mr James Robinson as a Director.

5. To re-elect Mr Simon Fraser as a Director.

6. To re-elect Dr Robin Niblett as a Director.

7. To elect Ms Marion Sears as a Director.

8. To approve the Directors' Remuneration Report for the year ended 31 December 2012.

9. To reappoint Grant Thornton UK LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.

10. To authorise the Directors to determine the Auditor's remuneration.

SPECIAL BUSINESS

Resolutions 11 and 12 will, if approved, authorise the Directors to allot a limited number of the currently unissued ordinary shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 5% of the number of ordinary shares of the Company in issue on 26 February 2013. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

To consider and, if thought fit, to pass the following resolutions which will be proposed, Resolution 11 as an ordinary resolution and Resolution 12 as a special resolution:

11. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £537,300 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company as at 26 February 2013) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.

12. THAT, subject to the passing of Resolution 11 set out above, the Directors be and they are hereby authorised, pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the authority given by the said Resolution 11 as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

    a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise);

    b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £537,300 (approximately 5% of the aggregate nominal amount of the issued share capital of the Company as at 26 February 2013); and

    c) to the allotment of equity securities at a price of not less than the net asset value per share

    and this power shall expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, save that this authority shall allow the Company to make offers or agreements before the expiry of this authority, and the Directors may allot equity securities in relation to such an offer or agreement as if the authority conferred by this resolution had not expired.

Resolution 13 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.99% of the number of ordinary shares in issue on 26 February 2013. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board and in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share, thereby resulting in an increase in net asset value per share.

13. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of shares of 25p each in the capital of the Company (the "shares") provided that:

Notice of Meeting

a) the maximum number of shares hereby authorised to be purchased shall be 6,443,306;

b) the minimum price which may be paid for a share is 25p;

c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased;

d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and

e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

Resolution 14 is an ordinary resolution, which relates to the continuation of the Company as an investment trust.

14. THAT the Company continue to carry on business as an investment trust.

By Order of the Board
FIL Investments International
Secretary
14 March 2013

Notes:

1 A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies to attend and to speak and vote instead of him. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

2 A Form of Proxy is enclosed and must be returned to the Registrars at the address on the form to arrive not later than 12 noon on 14 May 2013. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if they so wish.

3 To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.

4 In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.

5 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 12 noon on 14 May 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's Registrars no later than 12 noon on 14 May 2013.

6 All members are entitled to attend and vote at the Annual General Meeting and ask questions. The right to vote at the meeting will be determined by reference to the Register of Members as at 12 noon on 14 May 2013.

Notice of Meeting

7 Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in note 2 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.

8 If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Services Authority. As a result, any member holding three per cent or more of the voting rights in the Company who grants the Chairman a discretionary proxy in respect of some or all of those voting rights and so would otherwise have a notification obligation under the Disclosure and Transparency Rules, need not make separate notification to the Company and the Financial Services Authority.

9 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that to be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the number of votes they may cast), members must be entered on the register of members by 6.00pm on 14 May 2013. If the meeting is adjourned then, to be so entitled, members must be entered on the register of members at 6.00pm on the day two days before the time fixed for the adjourned meeting, or, if the Company gives notice of the adjourned meeting, at any other time specified in that notice.

10 As at 26 February 2013 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 42,984,032 ordinary shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 26 February 2013 was 42,984,032.

11 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

12 Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.

13 It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the annual report and financial statements were laid. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on its website.

14 Under Section 338 and Section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in such business. A resolution may properly be moved or a matter may properly be included in the business of the meeting unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business of the meeting, must be authorised by the person or persons making it, must be received by the Company not later than 4 April 2013, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business of the meeting only) must be accompanied by a statement setting out the grounds for the request.

15 No Director has a service contract with the Company.

16 A copy of this notice and other information required by Section 311A of the Companies Act 2006 is published on the Company's website at www.fidelity.co.uk/its

Registered Office:
Beech Gate,
Millfield Lane,
Lower Kingswood,
Tadworth,
Surrey KT20 6RP

Investing in Fidelity European Values PLC

The Manager of the Company – FIL Investments International – offers a range of options, so that you can invest in the way that is best for you. As Fidelity European Values PLC is a company listed on the London Stock Exchange you can also buy its shares through a stockbroker, share shop or bank.

INVESTING INSIDE AN ISA

You may invest in the Company's shares through the Fidelity ISA ("Individual Savings Account"). A Fidelity ISA can be an excellent way to get more from your investment, because you will not have to pay income or capital gains tax on your returns.

The maximum investment in a stocks and shares ISA is £11,280 for the 2012/2013 tax year and for 2013/2014 the new allowance is £11,520. The full amount may be invested in a Stocks and Shares ISA, or you can invest up to half the ISA allowance in a Cash ISA and the balance in a Stocks and Shares ISA. The minimum investment per fund in the Fidelity ISA is £1,000 as a lump sum, £250 as a top-up, or £50 a month per company in a regular savings plan.

Charges – Initial Charges for investments in the Fidelity ISA may vary. For those investing personally (directly with Fidelity), there will be no initial charge. Those investing through an intermediary will pay a basic initial charge of 0.5% plus any initial fee or commission (where applicable) agreed with their intermediary. Fidelity pays stamp duty from the initial charge. There are no other charges for the Fidelity ISA, but the Company pays an annual management charge to Fidelity of 0.85% plus a performance related fee where applicable, as set out in the Annual Report.

MOVING MONEY FROM A PREVIOUS ISA

If you have opened ISAs with other investment companies, you can move them into the Fidelity ISA and invest in Fidelity European Values PLC without losing any tax benefits. Please note that during the transfer your money will not be invested in the stock market so you may miss out on any growth during this time.

Charges – Fidelity does not apply an initial charge for a transfer into Fidelity European Values PLC. You will also not have to pay any additional transfer costs. However, please bear in mind that your current ISA manager may ask you to pay an exit fee. If your old fund provider charges you a fee for leaving them, you can claim it back from us. Please note this offer does not apply to our share dealing service.

INVESTING OUTSIDE AN ISA

If you prefer to invest outside an ISA, or have already used your full ISA allowance, the Fidelity Investment Trust Share Plan offers you a low cost and convenient way to put money into Fidelity European Values PLC. The minimum investment is £1,000 as a lump sum, £250 as a top-up or £50 a month through a regular savings plan. Holding shares within the Share Plan allows you to reinvest your dividends and make further investments without having to pay brokerage fees. You will also be able to set up a monthly savings plan and receive statements and valuations twice a year.

Investing for children – the Share Plan is a flexible and inexpensive way to invest on behalf of children. All you have to do is enter the initials or name of the child in the Designation Box on the Share Plan application form.

Charges – There are no charges for buying, selling or holding shares through the Fidelity Investment Trust Share Plan other than stamp duty of 0.5%, which is currently payable on all share purchases. However, if you invest through a Financial Adviser, there may be additional fees of up to 3% agreed with your adviser.

BENEFICIAL OWNERS OF SHARES – INFORMATION RIGHTS

Registered shareholders of fully listed companies are able to nominate the underlying beneficial owners of their shares to receive information rights. You should contact your registered shareholder direct to request to receive your information rights. Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's Registrars, Capita Registrars, or to the Company direct.

INVESTING ONLINE

Whilst you cannot use a Debit Card online to buy an ISA or Share Plan the application forms you need are all available via www.fidelity.co.uk/its. You can also invest online in Fidelity European Values PLC shares via the share trading facility available via our website www.fidelity.co.uk/sharenetwork. The Share Dealing service, ShareNetwork, is provided by Xest which is the online trading division of Charles Stanley & Co Limited, a leading London stockbroker. ShareNetwork enables you to buy or sell shares in any listed company during normal London Stock Exchange trading hours – between 8am and 4.30pm any working day. Shares in ShareNetwork can either be held direct or in an ISA, subject to the normal ISA limits and restrictions. You will be shown a live price and be able to buy or sell immediately. If an order is placed when the market is closed, it will be processed as soon as the market reopens. Unlike many online share dealing services, Fidelity ShareNetwork gives you CREST personal membership for shares held direct. This means that shares are registered on the CREST system in your own name and everything relating to your shares – dividends, annual reports and so on – will be sent direct to you and you will be able to attend and vote at shareholder meetings in your own name.

Personal CREST membership does not apply to ISA holdings which must be held in the name of the ISA manager's nominee under ISA regulations. There is no extra charge for opening a ShareNetwork ISA and share purchases or sales are executed on line for only £9 per trade (Stamp duty is also payable on purchases at the rate of 0.5%). There is an account administration fee of £5.10 per month, however many different shares you own and whatever their value. Of course, you need to remember that the value of tax savings and eligibility to invest in an ISA will

Investing in Fidelity European Values PLC

depend on your individual circumstances, and all tax rules may change in the future.

CONTACT INFORMATION

Private investors: call free to 0800 41 41 10, 9am to 6pm, Monday to Saturday.

Financial advisers: call free to 0800 41 41 81, 8am to 6pm, Monday to Friday.
www.fidelity.co.uk/its

Existing shareholders who have a specific query regarding their holding or need to provide updated information, for example a change of address, should contact the appropriate administrator:

Holders of ordinary shares
Capita Registrars, Registrars to Fidelity European Values PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR. Telephone: 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open 8.30am – 5.30pm Monday to Friday)
email: ssd@capitaregistrars.com

Details of individual shareholdings and other information can also be obtained from the Registrars' website:
www.capitaregistrars.com

Fidelity Share Plan investors
Fidelity Investment Trust Share Plan, PO Box 24035, 12 Blenheim Place, Edinburgh EH7 9DD. Telephone: 0845 358 1107 (calls to this number are charged at 3.95p per minute from a BT landline dependent on the tariff. Other telephone service providers' costs may vary.)

Fidelity ISA investors
Fidelity, using the freephone numbers given above, or by writing to: UK Customer Service, Fidelity Worldwide Investment, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ

General enquiries should be made to Fidelity, the Investment Manager and Secretary, at the Company's registered office: FIL Investments International Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP
Telephone: 01732 361144.
Fax: 01737 836 892
www.fidelity.co.uk/its

ONLINE SHAREHOLDER SERVICES – SHARE PORTAL

Through the website of our Registrars, Capita Registrars, shareholders are able to manage their shareholding online by registering for the Share Portal, a free, secure, online access to your shareholding.

Facilities include:

Account Enquiry – Allows shareholders to access their personal shareholding, including share transaction history, dividend payment history and to obtain an up-to-date shareholding valuation;

Amendment of Standing Data – Allows shareholders to change their registered postal address and add, change or delete dividend mandate instructions. Shareholders can also download from this site forms such as change of address, stock transfer and dividend mandate forms as well as buy and sell shares in the Company. To make use of any of these facilities, please log on to the Capita Registrars website at: www.capitashareportal.com

Should you have any queries in respect of the above facilities, please do not hesitate to contact the Capita Share Portal helpline on 0871 664 0391 (calls cost 10p plus network extras), overseas +44 20 8639 3367, or by e-mail at shareportal@capita.co.uk

Capita Share Dealing Services
You can make use of a low cost share dealing service provided by Capita Registrars to buy or sell shares. Further information is available at www.capitadeal.com, or by telephoning 0871 664 0454 (calls cost 10p per minute plus network extras. Lines are open 8.30am – 5.30pm Monday to Friday). Using Capita Share Dealing Services you will also be able to deal in the shares of other companies for which Capita acts as Registrar, provided you are already a shareholder in the relevant company, and that company offers the Share Deal facility to its shareholders.

Dividend Reinvestment Plan
This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you prefer to receive shares for your next dividend instead of cash, please complete an application form online at www.capitashareportal.com or call Capita IRG Trustees on 0871 644 0381 (calls cost 10p per minute plus network extras) from the UK or +44 20 8639 3402 from overseas.

ShareGift
You may donate your shares to charity free of charge through ShareGift. Further details are available at www.sharegift.org.uk or by telephoning 020 7930 3737.

KEEPING YOU UPDATED

If you hold Fidelity European Values PLC shares in an ISA, you will receive a yearly report detailing all of your transactions and the value of your shares. Investors with the Fidelity Investment Trust Share Plan will receive statements and valuations twice a year.

The share price of Fidelity European Values PLC appears daily in The Financial Times. Price and performance information is also available at www.fidelity.co.uk/its. You can also obtain current price information by telephoning Fidelity on 0800 41 41 10 (freephone) or FT Cityline on 0905 817 1690 (voice activated service) (calls charged at 60p per minute on a per second basis from a BT landline. Charges from other telephone networks may vary).

Investing in Fidelity European Values PLC

FURTHER INFORMATION

For application forms or more information about any of the investment options described here, please call the Fidelity Investment Trust Line on 0800 41 41 10 and talk to a Fidelity customer representative (9am to 6pm Monday to Saturday).

Alternatively, you may like to visit the Fidelity London Investor Centre at 25 Cannon Street, next to St Paul's Cathedral.

You can also find out more by visiting fidelity.co.uk/its or contacting your Financial Adviser.

The Fidelity Individual Savings Account ("ISA") is offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by FIL Investments International. Both companies are authorised and regulated by the Financial Services Authority.

The Fidelity Investment Trust Share Plan is administered by Bank of New York Mellon and shares will be held in the name of Bank of New York Nominees Limited.

The value of savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Fidelity investment trusts are managed by FIL Investments International. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. Should you wish to seek advice, please contact a Financial Adviser.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. Investing in small and emerging markets can be more volatile than older developed markets.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity.

Issued by Fidelity European Values PLC

Fidelity, Fidelity Worldwide Investment, the Fidelity Worldwide Investment logo and ₣ symbol are trademarks of FIL Limited.

The contents of websites referred to in this document do not form part of the Annual Report.

Glossary of Terms

BENCHMARK
FTSE World Europe (ex UK) Index against which the performance of the Company is measured.

CAPITAL GAINS TAX (CGT)
The tax which you may have to pay if you sell your shares at a profit.

COLLATERAL
Asset provided as security for the unrealised gain or loss under a Contract For Difference.

CONTRACT FOR DIFFERENCE (CFD)
A Contract For Difference is a derivative. It is a contract between an investor and an investment house at the end of which the parties exchange the difference between the opening price and the closing price of the underlying asset of the specified financial instrument. It does not involve the investor buying or selling the underlying asset, only agreeing to receive or pay the movement in its share price. A Contract For Difference allows the investor to gain access to the movement in the share price by depositing a small amount of cash known as margin. The investor may reason that the asset price will rise, by buying ("long" position) or fall, by selling ("short" position). If the investor trades long, dividends are received and interest is paid. If the investor trades short, dividends are paid and interest is received. The Company only uses long Contracts For Difference.

CORPORATION TAX
The tax the Company may have to pay on its profits. Investment trust companies are exempt from corporation tax on their capital gains and do not pay tax on any UK dividends. As they can offset expenses against any taxable income, most investment trusts do not pay corporation tax and are therefore tax efficient.

DERIVATIVES
Financial instruments (such as futures, options and Contracts For Difference) whose value is derived from the value of an underlying asset.

DISCOUNT
If the share price of the Company is lower than the net asset value per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the net asset value. The opposite of a discount is a premium. It is more common for an investment trust to trade at a discount than a premium.

FAIR VALUE
The fair value is the best estimate of the value of the investments, including derivatives, at a point in time and this is measured as:

- Listed investments valued at bid prices, or last market price, where available, otherwise at published price quotations.
- Unlisted investments valued using an appropriate valuation technique in the absence of an active market.
- Contracts For Difference are valued as the difference between the settlement price of the contract and the value of the underlying shares in the contract (unrealised gains or losses).

GEARING OR GEARING EXPOSURE
Gearing or gearing exposure describes the level of a company's leverage and is usually expressed as a percentage. It can be through the use of bank loans, bank overdrafts or Contracts For Difference in order to increase a company's exposure to stocks. Leverage is permitted to buy or gain exposure to further investments. If assets rise in value, gearing magnifies the return to ordinary shareholders. Correspondingly, if the assets fall in value, gearing magnifies the fall. The gearing percentage reflects the amount of leverage a company uses to invest in the market. Contracts For Difference are used as a way of gaining exposure to the price movements of shares without buying the underlying shares directly.

GEARING PERCENTAGE
In a simple example, if a company has £100 million of net assets and £8 million of borrowings (either via bank loans or long Contracts For Difference) then the Shareholders' funds are 8% geared. Normally, the higher the gearing factor, the more sensitive an investment trust's shares will be to the movements up and down in the value of the investment portfolio.

HEDGING
A strategy aimed at minimising or eliminating the risk or loss through adverse movements, normally involving positions in two different markets, with one offsetting the other. Currently the Company uses derivative instruments for gearing and investment rather than hedging purposes.

NET ASSET VALUE (NAV)
Net asset value is sometimes also described as "shareholders' funds", and represents the total value of the Company's assets less the total value of its liabilities. For valuation purposes it is common to express the net asset value on a per share basis.

Glossary of Terms

ONGOING CHARGES
Total expenses (excluding finance costs and taxation) incurred by the Company as a percentage of average net asset values (previously known as the total expense ratio).

PRE-EMPTION RIGHTS
Section 561 of the Companies Act 2006 provides that a company offering a new issue of shares must first make an offer of these shares, on the same or more favourable terms, in proportion to the nominal value held by existing shareholders. At each annual general meeting, the Board seeks shareholder approval to disapply pre-emption right provisions, up to 5%.

PREMIUM
If the share price of the Company is higher than the net asset value per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the net asset value. The opposite of a premium is a discount.

RETURN
The return generated in the period from the investments:

- **Revenue Return** reflects the dividends and interest from investments and other income net of expenses, finance costs and taxation.

- **Capital Return** reflects the return on capital, excluding any income returns.

- **Total Return** reflects the aggregate of revenue and capital returns in the period.

SHAREHOLDERS' FUNDS
Shareholders' funds are also described as "net asset value" and represent the total value of the Company's assets less the total value of its liabilities.

TOTAL PORTFOLIO EXPOSURE
The total of fixed asset investments at fair value plus the fair value of the underlying securities within the Contracts For Difference.

TOTAL RETURN PERFORMANCE
The return on the share price or net asset value per share taking into account the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by the shareholder are assumed to have been reinvested in additional shares (for share price total return) or the Company's assets (for net asset value total return.

Warning to Shareholders

SHARE FRAUD WARNING

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Services Authority (FSA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

1. Get the name of the person and organisation contacting you.
2. Check the FSA Register at **www.fsa.gov.uk/fsaregister** to ensure they are authorised.
3. Use the details on the FSA Register to contact the firm.
4. Call the FSA Consumer Helpline on **0845 606 1234** if there are no contact details on the Register or you are told they are out of date.
5. Search our list of unauthorised firms and individuals to avoid doing business with.
6. **REMEMBER: if it sounds too good to be true, it probably is!**

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at **www.fsa.gov.uk/scams**, where you can find out about the latest investment scams. You can also call the Consumer Helpline on **0845 606 1234**.

If you have already paid money to share fraudsters you should contact Action Fraud on

0300 123 2040

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100% of the inks used are vegetable oil based 95% of press chemicals are recycled for further use and on average 99% of any waste associated with this production will be recycled.

The FSC® logo identifies products which contain wood from well-managed forests certified in accordance with the rules of the Forest Stewardship Council®.

This document is printed on Cocoon Silk; a paper made using 50% recycled fibre from genuine waste paper and 50% virgin fibre.

The unavoidable carbon emissions generated during the manufacture and delivery of this document, have been reduced to net zero through a verified, carbon offsetting project.