Investment Trusts

Managed by Fidelity Worldwide Investment

Fidelity Special Values PLC

Annual Report

For the year ended 31 August 2011

Fidelity WORLDWIDE INVESTMENT

Contents

Objective and Financial Calendar

To achieve long term capital growth from an actively managed portfolio of special situation investments, consisting primarily of securities listed or traded on the London Stock Exchange.

Lynn Ruddick,
Chairman

Financial Calendar – the key dates in the Company's calendar for the year from 31 August 2011

31 August – financial year end

4 November – announcement of results

11 November – publication of this Annual Report

15 December – Annual General Meeting

19 December – dividend payment date

2012

January – Interim Management Statement (as at 30 November 2011)

29 February – half-year end

April – announcement of half-yearly results (to 29 February 2012)

May – publication of half-yearly financial report

July – Interim Management Statement (as at 31 May 2012)

Highlights

	Year ended 31 August 2011
Net Asset Value ("NAV") per share (total return)	-4.1%
Share Price (total return)	-5.0%
FTSE All-Share Index* (total return)	+7.3%
Equity Shareholders' Funds	£312.5m
Market Capitalisation	£279.3m
Dividend per Ordinary Share	11.25p
Capital Structure: Ordinary Shares of 25p 56,528,896 in issue	

*The Company's Benchmark Index

Standardised Performance Total Return %

	01/09/2006 to 31/08/2007	01/09/2007 to 31/08/2008	01/09/2008 to 31/08/2009	01/09/2009 to 31/08/2010	01/09/2010 to 31/08/2011
NAV (debt at par*)	+15.9	-9.8	+9.0	+1.3	-4.1
Share price	+14.3	-17.6	+19.4	-2.1	-5.0
FTSE All-Share Index	+11.8	-8.7	-8.2	+10.6	+7.3

*NAV with debt at par is only quoted to 31 August 2009 as the last remaining bank loan was repaid during the reporting year

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

Financial Summary

	2011	2010
Assets at 31 August		
Shareholders' funds	£312.5m	£333.8m
NAV per share	552.85p	586.21p
Dividend for the year to 31 August		
Final dividend per ordinary share	11.25p	10.50p
Share price data at 31 August		
Share price at year end	494.00p	530.00p
Share price high	595.00p	585.00p
Share price low	469.00p	502.50p
Discount at year end	-10.6%	-9.6%
Discount low/premium high	-6.8%	+0.4%
Discount high	-12.1%	-12.3%
Total returns (includes reinvested income) for the year to 31 August		
NAV	-4.1%	+1.3%
Share price	-5.0%	-2.1%
FTSE All-Share Index	+7.3%	+10.6%
Total expense ratio[1]	1.23%	1.23%

1 Operating expenses (excluding interest) before tax based on average shareholders' funds

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

Chairman's Statement

RESULTS FOR THE YEAR ENDED 31 AUGUST 2011

NAV:	**-4.1%**
SHARE PRICE:	**-5.0%**
BENCHMARK:	**+7.3%**
DIVIDEND:	**11.25p**

I have pleasure in presenting the Annual Report for Fidelity Special Values PLC.

PERFORMANCE

This has been a difficult and disappointing year for Fidelity Special Values PLC ("FSV") with a Net Asset Value total return of -4.1% (compared to a total return of +7.3% from the FTSE All-Share Index). The poor performance has dragged the two year return into negative territory with a total return of -2.8%. The five year total return remains positive at 10.9%, 0.3% behind that of the FTSE All-Share Index total return of +11.2% for the same period.

The behaviour of the UK equity market during the year ended 31 August 2011 was in many respects a repeat of last year's. The year started with markets still concerned that the initial 'V' shaped recovery following the crisis of 2008 was about to revert to a further period of recession – the much feared 'double dip'. In fact, prompted by a further round of quantitative easing in the US starting in November 2010, together with improving economic indicators, equity markets recovered sharply during the first half of the year, with the UK market 16.5% ahead by the time of the Company's Half-Yearly report at the end of February 2011. However, the second half of the year again saw much less benign market conditions, with a broadly sideways market during spring and early summer correcting sharply downwards in August, leaving the whole year ahead by 7.3%.

Two significant contributors to FSV's underperformance in this period were that the portfolio was substantially underweight mining and commodity-related stocks, while retaining an overweight to UK retail banks, and in particular Lloyds and RBS. Sanjeev Shah, the Portfolio Manager, has addressed his reasoning behind these and other positive and negative contributors to performance in his Manager's Review, which follows.

Given the poor recent returns the Board has reviewed whether FSV's investment philosophy and strategy is right in the current market environment. The underlying philosophy of the Board is that over time the return from equities will be better than that achieved from cash and that a well managed and active approach to investment will produce better returns than an investment in an index tracker fund.

The strategy of FSV is to deliver enhanced or "special" value in two main ways. First, the investment strategy is not unduly influenced by the benchmark, and the objective is to only invest in companies that Sanjeev, with the benefit of the Fidelity research team, believes represent good value, ie a bottom up approach to investment. Second, to invest in sectors which are under-represented in the portfolios of other institutional investors and are at low relative historic valuations. This is both a contrarian and a value approach to fund management and requires an active and knowledgeable portfolio manager who makes investments by not following the crowd.

We have always made clear that we will judge success over the long term and that Sanjeev should not feel obligated to try to participate in shorter term trends which may be driven by fear or unrealistic optimism rather than by fundamental value. We believe that over time this will produce better returns than both cash and our benchmark index. Since the inception of FSV the NAV has increased by 593.2% on a total return basis compared to the benchmark of 207.0%.

However, this approach means that in any single year performance can – and does – vary significantly from that of the market as a whole and we have seen this, both positively and negatively, over the last five individual years and, indeed, since the inception of FSV in 1994. The last five years' performance is set out in the table below.

As a Board we review at each Board meeting the performance, particularly over rolling five year periods. We challenge Sanjeev and probe his positions and underlying thinking. What we are looking for is depth of knowledge, clarity of thinking, consistency of application, conviction, fearlessness in taking strong views and honesty in admitting misjudgements.

Looking at the performance over the last two years, a large element of the negative contribution has been due to conviction that mining and commodity-related stocks are overvalued and that some banks are undervalued. Sanjeev has been consistent in these and other convictions and has explained his views on these areas in his Review. We continue to believe that this contrarian strategy will produce better returns in the longer term and that the strategy of FSV is valid in these markets.

Year to 31 August NAV and Index total return %	2011	2010	2009	2008	2007	5 years
Fidelity Special Values PLC	-4.1	+1.3	+9.0	-9.8	+15.9	+10.9
FTSE All-Share Index	+7.3	+10.6	-8.2	-8.7	+11.8	+11.2
Difference	-11.4	-9.3	+17.2	-1.1	+4.1	-0.3

OUTLOOK

Stock markets around the world remain uncertain and highly volatile and this is likely to continue whilst the US runs high public and trade deficits and Europe enters the throes of a political and banking crisis. As a counter to the bad news, despite weakness in the US and Europe, the world economy as a whole continues to show reasonable growth. In addition, major central banks are starting to ease policy and many UK companies have strong balance sheets and healthy cash flows to cover dividends.

The volatility of stock markets over the last year has produced significant opportunities to invest in sectors that should suit contrarian investment. Both the Investment Manager and the Board acknowledge that this is a pivotal year in working to rebuild the good returns expected by our shareholders. There is much to be done but we have every confidence that the Investment Manager has the skills and commitment to achieve this.

OTHER MATTERS

Performance has clearly been the critical issue for our shareholders over the last year but there are some other matters which I need to touch on in this Annual Report.

Discount

The Board is very mindful of the importance of the level of discount to our shareholders and we have conducted a number of share repurchases during the year to help prevent the discount from widening further.

Gearing

The Board believes that using Contracts For Difference for gearing purposes continues to provide more flexibility for the Company's needs at a much lower cost than traditional bank debt. At the time of writing the gross level of gearing is somewhat below the 115% to 120% range we would consider "normal" owing to the uncertain outlook, discussed above.

Dividend

The Board has decided to recommend a final dividend of 11.25 pence per share for the year ended 31 August 2011, an increase of more than 7% over the 10.50 pence paid in 2010. This dividend will be payable on 19 December 2011 to shareholders on the register at close of business on 18 November 2011 (ex-dividend date 16 November 2011).

Board of Directors

It is my belief that the Board has the relevant skills and experience to serve the Company well in to the future. In common with our practice since 2004, all Directors are subject to annual re-election and their biographical details are included on page 18 to assist shareholders when considering their votes.

Retail Distribution Review ("RDR")

With effect from 31 December 2012, independent financial advisers will be required to offer advice to investors after considering a full range of investment options. Commission for advice will not be payable and fees will have to be agreed with the client rather than commission based payments being used.

RDR should open up the opportunity to a greater number of private investors to invest in investment trusts when these have not been considered previously due in part to lack of commission, limited platform availability and less understanding within the IFA industry.

The Annual General Meeting: Thursday 15 December 2011 at 11.00am

The Annual General Meeting will be held at Fidelity's offices at 25 Cannon Street, London EC4M 5TA (St Paul's or Mansion House tube stations) on Thursday 15 December 2011 at 11.00am.

It is the most important meeting that we, the Directors of your Company, have each year. Sanjeev will be making his annual presentation to shareholders, highlighting the achievements and challenges of the year past and the prospects for the year to come. We do urge as many of you as possible to come and join us for the occasion.

Lynn Ruddick
Chairman
4 November 2011

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 30 September 2011, had total assets under management exceeding £133.7 billion.

Sanjeev Shah
joined Fidelity in 1996 as a research analyst. He became a portfolio manager in 2002; between October 2002 and August 2005 he managed the Fidelity UK Aggressive Fund and between September 2005 and May 2007 he managed Fidelity Funds European Aggressive Fund. Since January 2008 he has managed Fidelity Special Situations Fund. Mr Shah took over responsibility for the Company's portfolio on 1 January 2008.

INTRODUCTION

As in 2010, 2011 has been another challenging year for investors, with a significant increase in volatility at the very end of the Company's financial year. Over the 12 months to 31 August 2011, the UK stock market posted a positive return of 7.3%; however in August alone, the market fell by 6.9%, thereby giving back nearly half the returns achieved in the first 11 months of the year.

During this period, the NAV of the Company fell by 4.1% (total return basis). This represents a very disappointing result, with the Company not only failing to beat its benchmark, but also at the same time posting a negative return in absolute terms. As a result, although the Company has delivered positive longer term capital growth, with its returns over the longer 3 and 5 year periods still being positive, they are now behind those of the market over both periods. I explain the contributors to this and the reasoning underpinning my portfolio construction in the Portfolio Review on page 7.

UK MARKET REVIEW

- GDP growth was very weak over the period; during the 12 months to August 2011 the UK economy only expanded by 0.5%, and at the end of August 2011 was still 3.9% behind its peak level of February 2008.
- Inflation again rose as a result of higher oil prices and the increase of VAT from 17.5% to 20% in January 2011; the annual CPI figure at the end of September 2011 stood at 5.2%.
- Unlike the European Central Bank, the Bank of England again kept interest rates unchanged throughout the year at a level of 0.5%.
- The UK market rose during the 12 month period, but investor optimism had turned to fear by the end of the Company's financial year with a significant market correction taking place in August 2011.

The Company's previous financial year ending on 31 August 2010 saw a game of two halves, with a strong recovery phase in the first half of the year, but with investor confidence dipping in the summer so that the year ended with concerns over a 'double dip' recession uppermost in investors' minds. 2011 saw the same cycle repeated; significantly improved economic indicators from both the UK and also the rest of the world economy during the final quarter of 2010 saw an initial strong period of stock market recovery, with the FTSE All-Share Index up by 16.5% at the time of the Company's Half-Yearly report at the end of February 2011. This performance was led by the cyclical areas of the market, where concerns over oil supply in the light of the 'Arab Spring' saw oil prices in March move above the US$120 per barrel level for the first time since 2008, a new all-time high in sterling terms.

However, during the second half of the year, investor confidence was hit hard by a succession of negative events. First, the world economy was buffeted by the knock-on effects to global supply chains of the catastrophic earthquake and tsunami in Japan; then market concern turned to peripheral Europe's sovereign debt issues, where the true cost of governments' attempts to 'bail out' their domestic banking systems was brought into sharp focus by a round of refinancings in the early summer. Finally, these concerns reached the US, where Standard & Poor's downgraded US Treasury debt in August as the Republicans stalled the Democrats' reflationary plans.

Against this backdrop, in the UK, the grind to recover to pre-crash levels of economic activity looked increasingly difficult as GDP only grew by the slimmest of margins (0.5%) during the year to August 2011. This hit investor confidence hard, with the market in August falling by 6.9% - nearly 50% of the returns experienced during the previous 11 months. At a sector level, Technology and Consumer Goods led the way with the market buoyed by the performance of companies with significant global revenue earning capabilities such as ARM, Autonomy, and Burberry. In what could be the start of a round of global M&A (merger and acquisition), where companies with strong cash balance sheets but low internal revenue growth prospects attempt to 'buy' growth, the end of the year saw Autonomy bid for by Hewlett Packard of the US. Elsewhere, Financials, and in particular the retail banks, continued to lag the market, being the only sector to post a negative absolute return over the year as the shadow of potential regulation dented investor confidence that a return to more 'normal' returns from banks would be possible in anything other than the long term. Here, Lloyds and RBS, the banks where the Government still owns significant stakes, were the worst hit, along with Barclays, where investors were concerned that it might be forced to split off its investment banking activities.

During the year, sterling reversed the trend of the previous 12 months and strengthened against the dollar, up from $1.54 to $1.63.

PORTFOLIO REVIEW

As noted earlier, performance this year has been very disappointing. Banks have been the biggest detractor to performance, costing the portfolio 3.4% in relative performance. The macroeconomic uncertainty, regulatory risk and recent concerns over the Eurozone sovereign crisis have impacted the stock prices of the banks very negatively. I continue to have conviction that strong value has emerged in good retail and commercial banking franchises. Banks continue to be the most underweighted sector amongst institutional investors, are disliked by sell side analysts and valuations are at multi year lows on several metrics. Stocks like Lloyds that provide a very real opportunity for potentially doubling their current valuation are rare, and do indeed represent a 'special situation'. It is noticeable that the absence of concrete moves on regulation by the Government caused investor sentiment towards the stock to change in the few weeks, prior to our year end. We remain committed to the long term potential that it affords. I used that recent weakness in the Lloyds share price to add to my position and maintain my exposure to HSBC and Citigroup.

The overweight in financials was not all bad news. My strong exposure to Diversified (ie non-bank) Financial Services and Commercial Real Estate stocks resulted in them being the two best performing sectors in the portfolio. London Stock Exchange was the highest contributing holding over the year, driven by recovering transaction volumes and increasing global consolidation of the exchange sector. I have used its strength to halve my holding. Both British Land and Land Securities contributed strongly driven by a better understanding of the yield credentials of property and a recovery in the City and West End rental outlook. I have sold out of both names recently.

The cyclical sectors that drove the strong performance of the market during the first half of the year, in particular sectors in Oil and Gas and Materials (which impacted the portfolio by -1.7% and -0.9% respectively) in relative performance, are usually sectors that perform in the last cycle of a recovery. As such it was surprising and disappointing for shareholders to see these sectors outperform to such an extent in what are still the earlier phases of a slow and multi year recovery from the 2008 'lows'. As a contrarian investor, my view was that at the start of the year the world economy had not worked through all the issues that caused the crisis in 2008, and this view has, to some extent, been confirmed by the sharp corrections experienced by these sectors in August.

Media stocks overall detracted 1% from relative performance. However, there were some notable positive and negative contributors within the sector. The investment in Yell has been costly and I clearly underestimated the cyclical downturn in SME advertising, balance sheet risk and structural challenges the business model faces. Today the position in Yell is less than 0.3% of the portfolio. Elsewhere, News Corporation's announcement that it was dropping its bid for BSkyB given the 'hacking scandal' hurt the stock's valuation in the second half of the year. I have held the stock since I first took over the portfolio, based on its pipeline of superior revenue-enhancing domestic product offerings from HD through 3D and 'Triple Play', and hence my thesis is not dependent on the realisation of the bid premium arising from News Corporation's interest in the company. I have recently added to the position given the company's unique market position and growth potential. Importantly ITV and Moneysupermarket were notable top 10 contributors to performance driven by the recovery strategies adopted by new management. I continue to maintain the overweight in media names. This includes growth ideas such as Pearson, but more recently, given the market correction, cyclically exposed names such as ITV are looking more interesting.

Turnaround situations continue to feature in the portfolio. Unfortunately there have been some notable detractors to performance from the likes of bwin.Party, an on-line gambling and sports betting company, and Logica, a technology and IT outsourcing provider. bwin.Party has been impacted by poor operational performance of its bwin sports betting division following the merger of bwin with PartyGaming in March 2011 and negative surprises around regulation in Germany. I have taken the decision to reduce my holding as my conviction on the thesis has reduced. Logica, having been a top contributor to performance in the previous year, has been impacted by poor operational performance in the Benelux region. I have maintained my position given the turnaround instituted by new management. Conversely, the turnaround of QinetiQ in the Aerospace and Defence space has been a top contributor to performance and I maintained the top 10 position during the year.

Finally a theme that still attracts me is the rise in the consumer class in the Emerging Markets, which I see as a multi year phenomenon. There are relatively few stocks in the UK that allow me to play this theme. However, one of them, Burberry, was a top 10 contributor to the portfolio over the year and I am happy to retain this holding going forward.

Again, during the year I made use of three main derivative strategies but these remain a small part of the portfolio. Firstly, I bought long Contracts For Difference ("CFDs") to achieve additional gearing within the fund as a cheaper alternative to borrowing additional funds. These operate in the same way as regular borrowing and serve to increase or 'gear' the performance

Manager's Review

of the underlying share prices in both directions. Secondly, I bought short CFDs to take advantage of certain stocks where I believed that they were overvalued and were likely to fall. Industrial Cyclicals continue to be the main 'short' exposure in the portfolio. Finally, I bought a number of Index put and call options in the FTSE 100 Index to take advantage of periods where I considered the whole market to be over or undervalued. The first two CFD strategies performed broadly in line with the physical equities within the portfolio. My put and call options added a very small amount of positive return to the Company.

OUTLOOK

Market volatility and concern over the UK economy sliding back into recession has once again very much clouded the end of the Company's financial year. I have positioned the portfolio for a long road to economic recovery, but not a 'double dip' recession or a Japan like scenario (many years of very sluggish growth) in the West.

In this low-growth environment, I believe that companies which are able to demonstrate sustainable sales and earnings growth should be priced at a significant premium, which currently is not the case. These growth names such as BSkyB, many of which are also unloved and unfashionable, make up a significant part of the portfolio today. I am also finding more opportunities in early cycle names geared to the US housing market such as Wolseley. Turnaround situations under new management continue to feature in the portfolio such as Ladbrokes and QinetiQ. Finally, the portfolio has benefited from M&A activity, especially in small and mid capitalisation companies, and I believe this trend will continue. Holidaybreak and Avis are two recent examples of companies which have attracted corporate interest.

I acknowledge that I have much work to do this year to deliver a better return for shareholders. I believe we are probably a large way through the correction in terms of the size of the decline from peak to trough; for an investor who likes to go against the flow, this represents the best chance in more than two years to find new opportunities or to add to my positions. The recent volatility in stock markets has, in my opinion, provided the best opportunity to invest in equities since March 2009.

Sanjeev Shah
FIL Investments International
4 November 2011

Forty Largest Investments as at 31 August 2011

Investments including derivatives	Exposure £'000	Fair Value[2] £'000	%[1]
HSBC Banking and financial services	19,279	19,279	6.0
GlaxoSmithKline Pharmaceuticals	19,127	19,127	6.0
British Sky Broadcasting Broadcasting	16,443	16,443	5.1
Vodafone Mobile telecommunications	16,339	16,339	5.1
Lloyds Banking Group Banking and financial services	15,530	15,530	4.9
BP International oil and gas	13,356	13,356	4.2
Ericsson Global telecommunications equipment and related services	11,646	3,215	3.7
Pearson Global publishing	9,906	9,906	3.1
Wolseley Construction materials	9,636	9,636	3.0
J Sainsbury Grocery and related retailing and financial services	9,075	9,075	2.8
Ten largest investments including derivatives (2010: 43.2%)	**140,337**	**131,906**	**43.9**

Kingfisher International home improvement retailer	8,806	8,806	2.8
Aviva Global financial services	8,029	8,029	2.5
QinetiQ International provider of defence and security technology services	8,006	8,006	2.5
ITV Media	7,159	7,159	2.3
Ladbrokes Betting and gaming	7,001	7,001	2.2
Logica Information technology consultancy services	6,862	6,862	2.1
Centrica Integrated energy	6,697	6,697	2.1
London Stock Exchange United Kingdom's primary stock exchange	6,406	6,406	2.0
Citigroup Global diversified financial services	6,126	6,126	1.9
Royal Bank of Scotland Global financial services	4,980	4,980	1.6
Twenty largest investments including derivatives (2010: 62.6%)	**210,409**	**201,978**	**65.9**

Forty Largest Investments as at 31 August 2011

Investments including derivatives	Exposure £'000	Fair Value[2] £'000	%[1]
L'Oreal Cosmetics	4,674	1,096	1.5
Burberry Luxury clothing and non-apparel accessories	4,588	4,588	1.4
AstraZeneca Pharmaceuticals	4,528	4,528	1.4
Novae Specialist insurance and reinsurance underwriter	3,406	3,406	1.1
F&C Asset Management International investment management	3,393	3,393	1.1
Electrocomponents Electronic components and equipment distributing	3,326	3,326	1.0
BG Oil and gas company	3,235	3,235	1.0
TalkTalk Telecom Fixed line voice and broadband telecommunications	2,934	2,934	0.9
Max Property Real estate	2,733	2,733	0.9
bwin.Party Digital Entertainment On-line gaming	2,691	2,691	0.8
Ocado Internet retailer specialising in groceries	2,360	2,360	0.7
Associated British Foods Food producer and textile retailer	2,282	2,282	0.7
Alcatel Lucent Global telecommunications equipment and related services	2,247	450	0.7
Redrow Real estate	2,217	2,217	0.7
Capital & Counties Property Property development and investment	2,152	2,152	0.7
Xchanging Insurance and financial markets processing services	2,142	2,142	0.7
United Business Media Global business media	2,089	2,089	0.7
Moneysupermarket.com Internet software, finance and travel services	2,043	2,043	0.6
IG Group Derivatives trading	2,018	2,018	0.6
Ipsen Pharmaceuticals	2,006	(43)	0.6
Forty largest investments including derivatives (2010: 81.2%)	267,473	251,618	83.7
Other investments including derivatives (90 holdings) (2010: 15.3%)	38,042	46,985	12.0
Total investments including derivatives	305,515	298,603	95.7
Cash and other net current assets (2010: 3.5%)	13,918	13,918	4.3
	319,433	312,521	100.0

1 % based on total exposure which is the fixed asset investments plus the fair value of the underlying securities within the derivatives
2 Fair value recognised in the balance sheet on page 36 is measured as:
- Listed and AIM quoted investments are valued at bid prices, or last prices, where available otherwise at published price quotations;
- Unlisted investments are valued using an appropriate valuation technique in the absence of an active market;
- Options are valued at the quoted trade price for the contract; and
- CFDs are valued as the difference between the settlement price and the value of the underlying shares in the contract (unrealised gains/(losses)).

It is made up of equity investments of £301,931,000 (2010: £323,663,000), derivative assets of £1,553,000 (2010: £1,995,000) and derivative liabilities of £4,881,000 (2010: £4,180,000), totalling £298,603,000 (2010: £321,478,000)

The portfolio turnover rate for the year was 59.7% (2010: 60.2%)

A full list of the Company's portfolio has not been included in the Annual Report but will be made available in the Company's page on the Manager's website, following the Annual General Meeting

Distribution of the Portfolio[1] as at 31 August 2011

Investments (including derivatives)	UK	Overseas	Total	2010	Index[2]
Consumer Services					
Media	13.4	0.9	14.3	13.8	2.7
Travel & Leisure	4.5	0.5	5.0	5.5	2.6
General Retailers	4.0	0.2	4.2	2.3	1.4
Food & Drug Retailers	3.7	-	3.7	3.9	2.7
	25.6	1.6	27.2	25.5	9.4
Financials					
Banks	12.5	2.2	14.7	15.8	10.1
Financial Services	4.3	-	4.3	4.2	2.0
Life Insurance	2.8	-	2.8	1.2	2.9
Non-life Insurance	1.8	-	1.8	2.6	0.9
Real Estate Investments & Services	1.8	-	1.8	4.5	1.0
Real Estate Investment Trusts	0.9	-	0.9	3.6	0.8
Equity Investment Trusts	-	-	-	-	3.1
	24.1	2.2	26.3	31.9	20.8
Technology					
Technology Hardware & Equipment	0.2	4.7	4.9	3.4	0.6
Software & Computer Services	2.9	1.0	3.9	4.5	1.2
	3.1	5.7	8.8	7.9	1.8
Health Care					
Pharmaceuticals & Biotechnology	8.1	(0.1)	8.0	10.7	7.4
Health Care Equipment & Services	-	-	-	-	0.4
	8.1	(0.1)	8.0	10.7	7.8
Industrials					
Support Services	5.4	-	5.4	6.6	3.5
Aerospace & Defence	2.5	-	2.5	1.2	1.8
Industrial Transportation	0.1	-	0.1	0.1	0.1
Electronic & Electrical Equipment	0.5	(0.2)	0.3	-	0.4
Construction & Materials	(0.3)	-	(0.3)	-	0.2
General Industrials	-	-	-	-	0.6
Industrial Engineering	-	-	-	-	0.9
	8.2	(0.2)	8.0	7.9	7.5

Distribution of the Portfolio[1] as at 31 August 2011

Investments (including derivatives)	UK	Overseas	Total	2010	Index[2]
Telecommunications					
Mobile Telecommunications	5.1	-	5.1	5.7	5.1
Fixed Line Telecommunications	0.9	-	0.9	1.2	1.0
	6.0	-	6.0	6.9	6.1
Oil & Gas					
Oil & Gas Producers	5.9	-	5.9	4.0	16.5
Oil Equipment & Distribution	-	-	-	-	0.6
	5.9	-	5.9	4.0	17.1
Consumer Goods					
Personal Goods	1.7	1.5	3.2	0.9	0.4
Food Producers	0.7	0.3	1.0	1.1	2.2
Beverages	0.3	-	0.3	(0.5)	3.6
Household Goods & Home Construction	0.8	(0.5)	0.3	0.4	1.9
Automobiles & Parts	-	(0.1)	(0.1)	-	0.2
Tobacco	-	-	-	-	4.6
	3.5	1.2	4.7	1.9	12.9
Utilities					
Gas, Water & Multiutilities	2.1	-	2.1	0.6	3.3
Electricity	-	-	-	0.4	0.8
	2.1	-	2.1	1.0	4.1
Basic Materials					
Mining	0.6	-	0.6	(0.1)	11.9
Industrial Metals & Mining	0.1	-	0.1	-	0.1
Chemicals	(1.0)	(1.0)	(2.0)	(1.1)	0.5
	(0.3)	(1.0)	(1.3)	(1.2)	12.5
Total Investments (including derivatives) - 2011	86.3	9.4	95.7	96.5	100.0
Cash and Other Net Assets			4.3	3.5	-
Total - 2011			100.0	100.0	100.0
Total Investments (including derivatives) - 2010	88.4	8.1	96.5	100.0	

1 Distribution of the Portfolio is shown as a percentage based on total exposure which is the fixed asset investments plus the fair value of the underlying securities within the derivatives
2 FTSE All-Share Index

Summary of Performance

Historical record as at 31 August	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Shareholders' funds (£m)	312.5	333.8	334.5	319.3	376.6	357.9	301.4	216.9	136.2	105.4	109.0
NAV per share (p)	552.85	586.21	587.50	562.13	630.75	547.65	461.23	341.94	285.93	238.87	270.76
Share price (p)	494.00	530.00	550.00	481.50	592.00	521.50	452.25	348.00	300.50	254.50	290.00
(Discount)/premium to NAV (%)	-10.6	-9.6	-6.4	-14.3	-6.1	-4.8	-1.9	+1.8	+5.1	+6.8	+7.1
Revenue return per ordinary share (p)	11.43	10.74	8.76	17.13	6.91	3.65	2.76	1.55	0.91	1.39	3.04
Dividends per ordinary share (p)	11.25	10.50	9.00	17.00	7.50	3.75	2.75	1.40	1.00	1.40	2.50
Costs of running Company (total expense ratio) (%)	1.23	1.23	1.32	1.14	1.32	1.49	1.52	1.42	1.75	1.70	1.64
Gross exposure (%)*	108	113	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Net exposure (%)**	98	103	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Actual gearing ratio (%) (bank loans)	n/a	n/a	5.7	3.4	2.8	4.8	12.3	14.8	17.1	17.2	9.7
NAV performance (%) (total return basis)	-4.1	+1.3	+9.0	-9.8	+15.9	+19.4	+35.8	+19.9	+20.4	-10.9	+14.4
Share price performance (%) (total return basis)	-5.0	-2.1	+19.4	-17.6	+14.3	+16.0	+30.4	+16.2	+18.8	-11.4	+31.0
Index performance (%) (total return basis)	+7.3	+10.6	-8.2	-8.7	+11.8	+16.8	+24.1	+10.8	+4.6	-18.7	-17.3

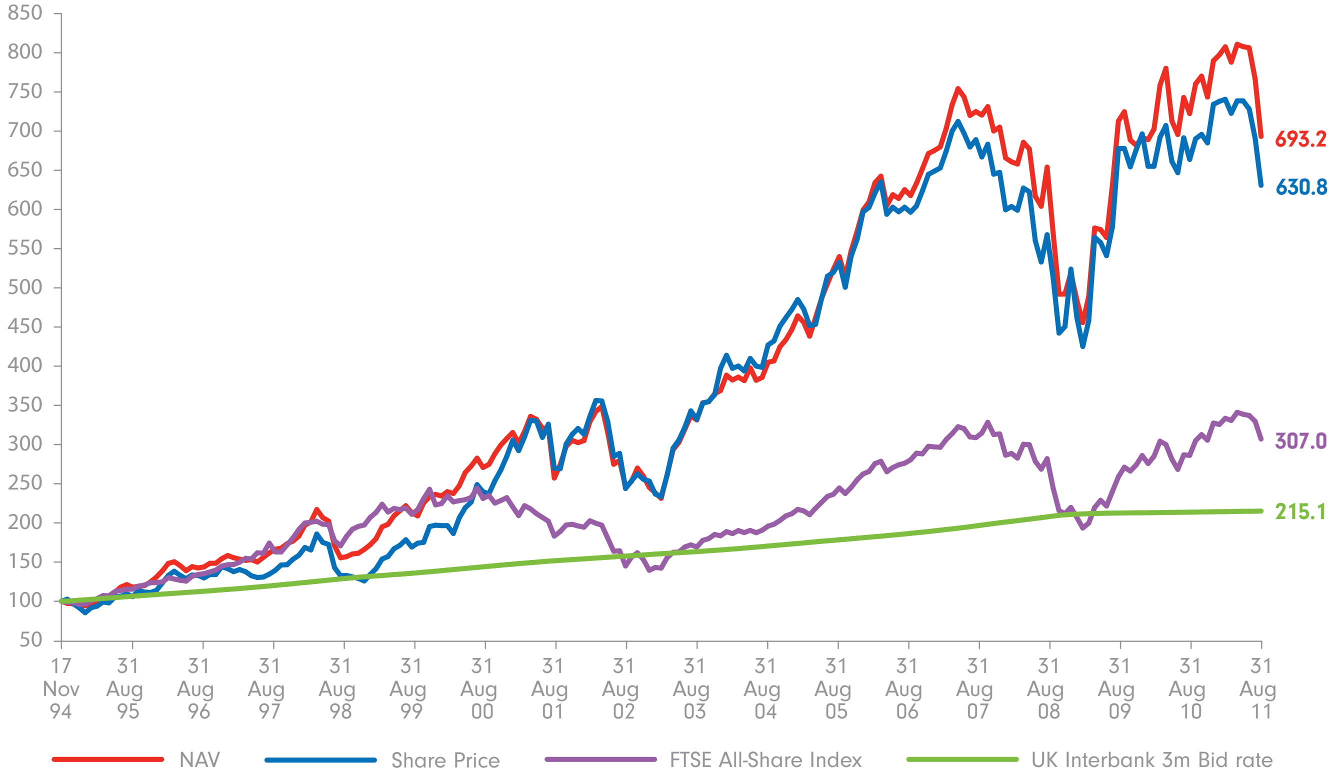
The NAV stated prior to 2004 is diluted to reflect warrants in issue prior to January 2004

* Equities plus derivatives
** Equities plus long derivatives minus short derivatives

Sources: Fidelity and Datastream
Basis: bid-bid with net income reinvested

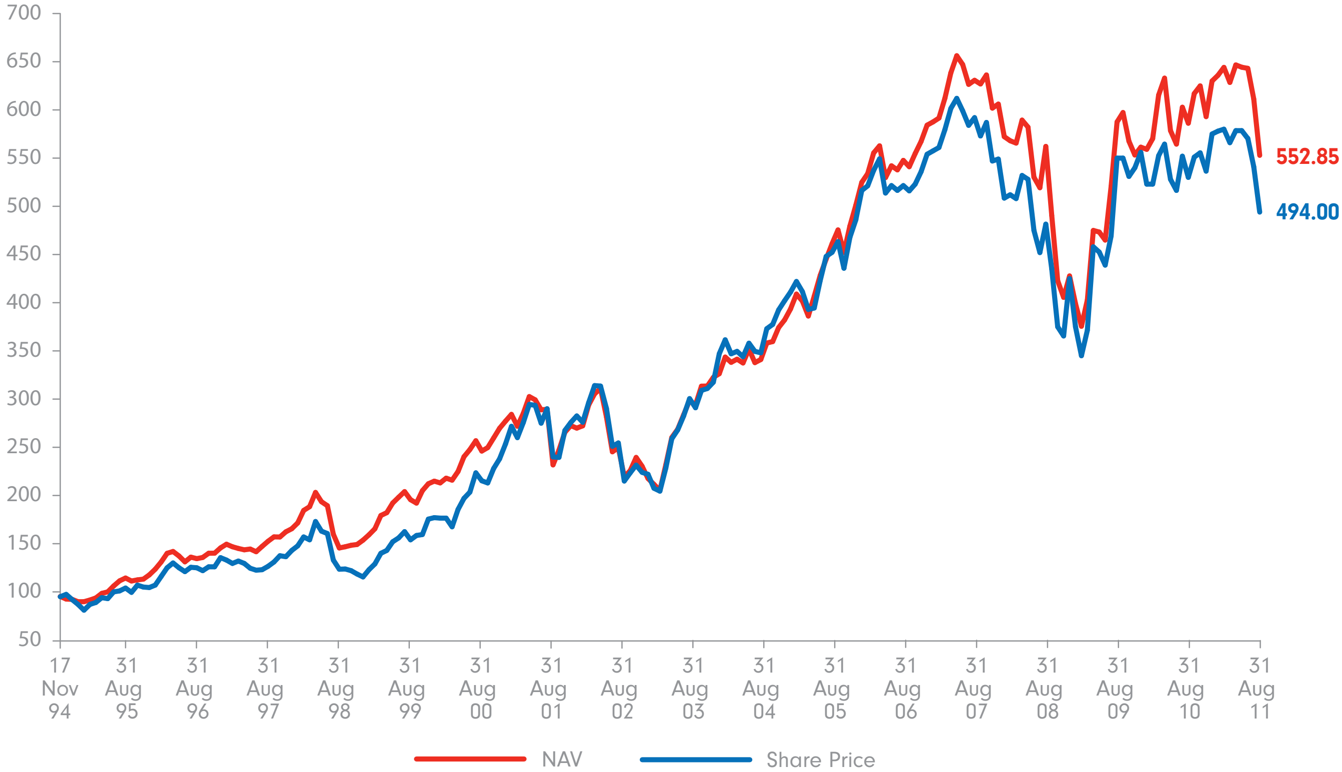
Summary of Performance

Total return performance from launch to 31 August 2011



Prices rebased to 100

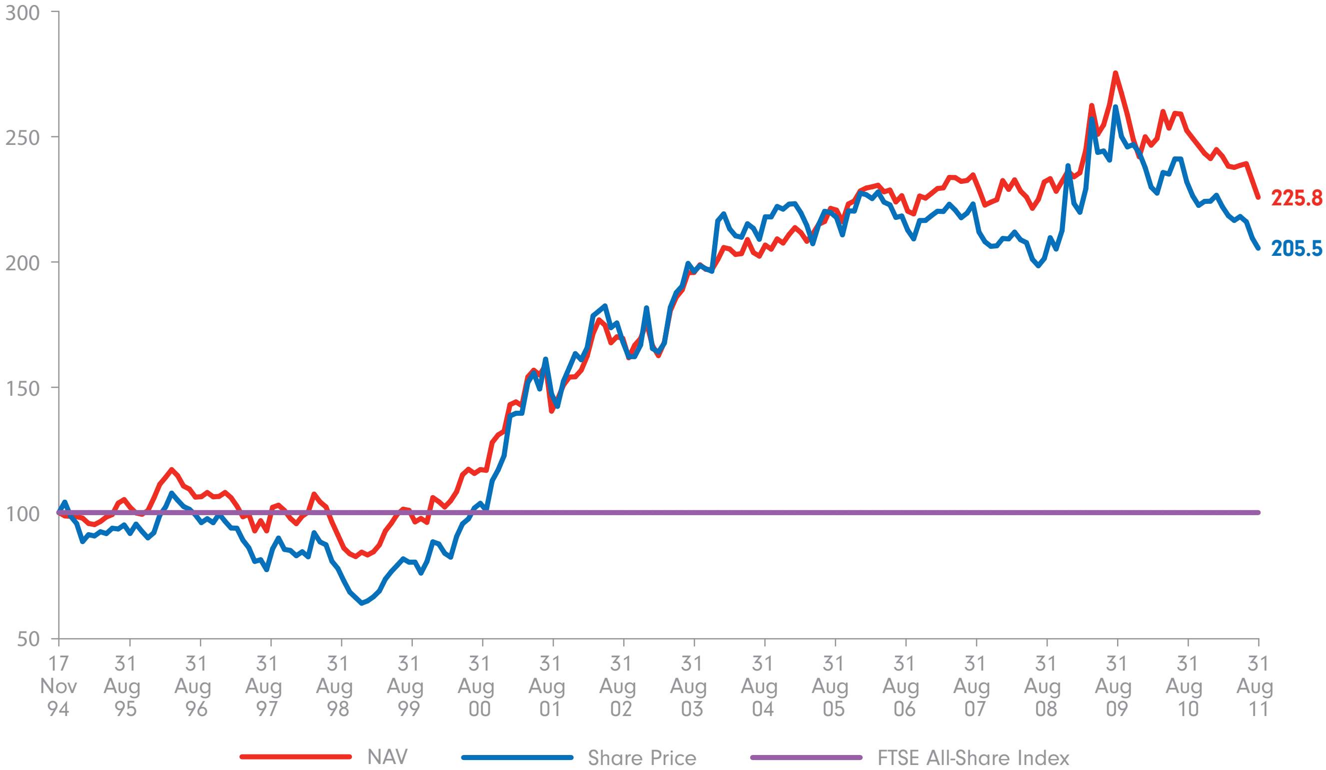
NAV and share price in pence from launch to 31 August 2011



Sources: Fidelity and Datastream
Basis: bid-bid with net income reinvested

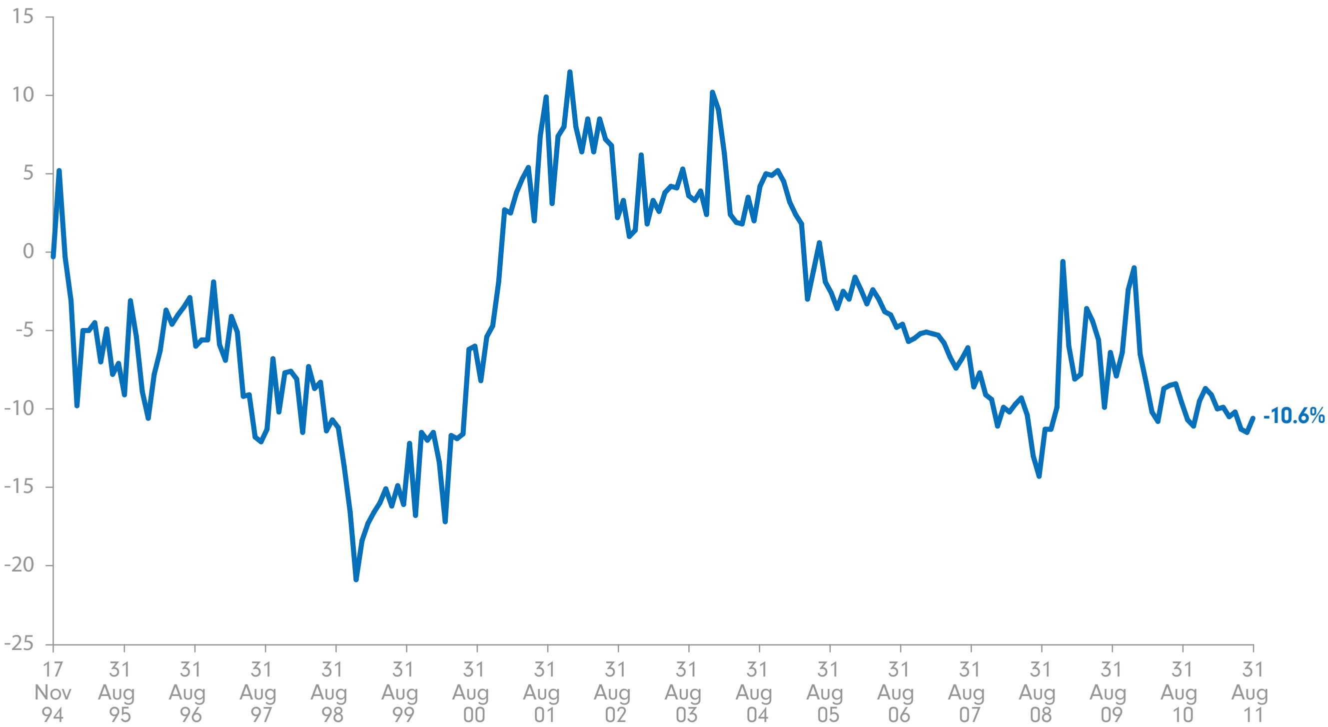
Summary of Performance

Total return performance relative to the benchmark index from launch to 31 August 2011



Prices rebased to 100

Share price premium/(discount) to NAV from launch to 31 August 2011



Based on figures at month end only

Sources: Fidelity and Datastream
Basis: bid-bid with net income reinvested

Attribution Analysis

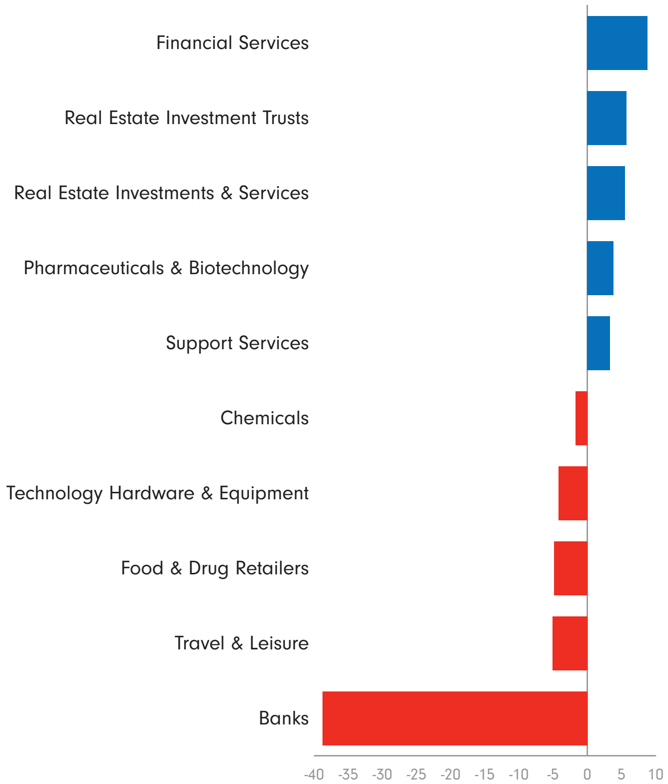
(on an absolute basis)

Analysis of change in NAV in the year (capital only)	pence
NAV @ 31 August 2010	586.21
Impact of Index (Ungeared)[1]	+30.68
Impact of Portfolio Management[1]	-57.37
Impact of other derivatives[2]	+9.12
Operational Costs	-6.85
Dividend Paid	-10.50
Cash and Residual	+1.56
NAV @ 31 August 2011	552.85

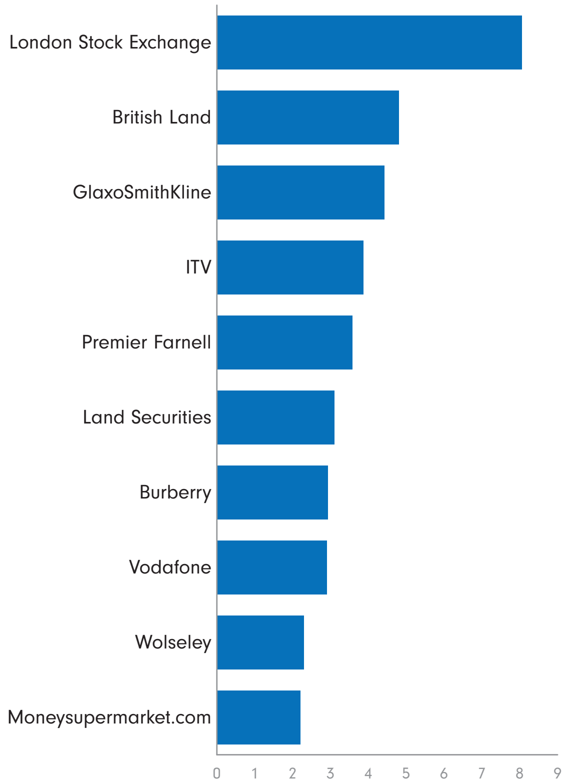
1 Equities purchased via cash or long CFDs

2 Options and short CFDs

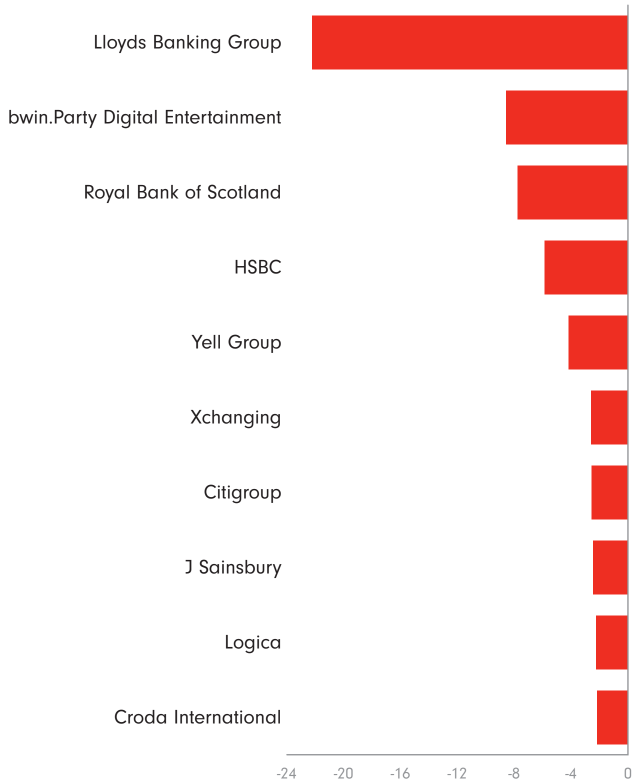
Top 5 and bottom 5 sector contributors (pence per share)



10 Highest contributors (pence per share)

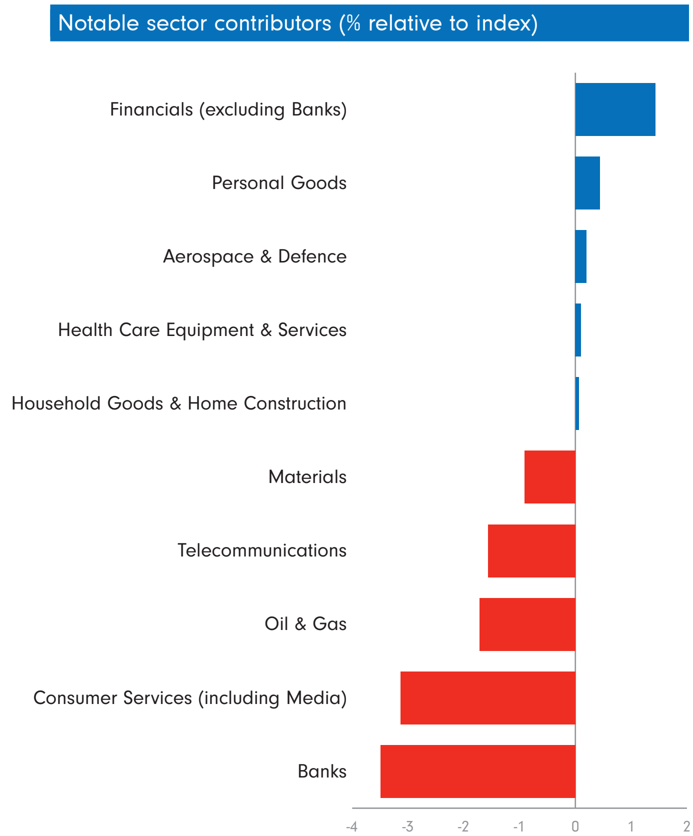


10 Highest detractors (pence per share)



Sources: Fidelity

Attribution Analysis
(on a relative basis)



COMPANY INFORMATION
The Company was launched on 17 November 1994 with one warrant attached to every five shares. The original subscription price for each share was £1.

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 Special Values is FSV.L.

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

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 94.95p. All UK individuals under present legislation are permitted to have £10,600 of capital gains in the current tax year 2011/2012 (2010/2011: £10,100) before being liable for capital gains tax. CGT is charged at 18% and 28% dependent on the total amount of taxable income.

Board of Directors and Corporate Information

LYNN RUDDICK[2,3]

(Chairman) (date of appointment: 22 July 2005; appointed as Chairman: 9 July 2010) is a Fellow of the Chartered Association of Certified Accountants and a member of the Securities Institute. She is Chairman of British Assets Trust plc, a Non-Executive Director and Chairman of the Audit Committees of Standard Life UK Smaller Companies Trust plc and BlackRock Frontiers Investment Trust plc, a member of the Investment Committee of the Pearson Group Pension Plan and a Trustee of the Scottish & Newcastle Pension Plan. She is also a member of the Investment Committee of Western Provident Association and Chairman of their Pension Fund Trustee Board. She worked for many years as an investment manager in both Edinburgh and London and is a former Chairman of the Investment Committee of the National Association of Pension Funds. Before retiring from Merrill Lynch Investment Managers in 2004 she headed their investment trust business unit.

SHARON BROWN[1,2,3]

(Chairman of the Audit Committee) (date of appointment: 15 April 2010; appointed as Chairman of the Audit Committee: 26 October 2010) is Finance Director of Dobbies Garden Centres Ltd and a member of the Group of Scottish Finance Directors. Mrs Brown previously held a senior financial position at John Menzies plc and is a Fellow of the Chartered Institute of Management Accountants.

ANDY IRVINE[1,2,3]

(Date of appointment: 15 April 2010) is Non-Executive Chairman of Jones Lang La Salle Scotland and has over 30 years' experience in the field of property development and investment. He is also Chairman of Montanaro European Smaller Companies PLC and a Director of Securities Trust of Scotland PLC. Mr Irvine is also Chairman of the Scottish International Education Trust, a Chairman of Celtic Rugby and is a past Chairman of the British and Irish Lions Limited and a past President of the Scottish Rugby Union.

NICKY McCABE[3]

(date of appointment: 9 December 2004) is a Chief Operating Officer of Moonray Investors, a division of the FIL Limited Group, responsible for the non-financial services businesses within Fidelity. She is also a Non-Executive Director of Telehealth Solutions Limited and Amantys Limited, both Moonray Investors' businesses. Prior to joining Moonray Investors, she was Chief Operating Officer for the investment management team, having joined Fidelity in 1999 as head of investment administration. Ms McCabe has wide experience in investments, having been responsible for all aspects of operational, systems and project support for the portfolio managers, analysts and traders. Prior to joining Fidelity, she spent 6 years at HSBC Asset Management where she ran Performance Measurement, Institutional Marketing Support and Operations. Ms McCabe also spent 2 years at McKinsey & Co. as a strategy consultant.

DOUGLAS KINLOCH ANDERSON[1,2,3]

(date of appointment: 18 October 1994) is Chairman of Kinloch Anderson Limited and a Director of F&C Private Equity Trust PLC. He has been President of the Edinburgh Chamber of Commerce and a member of the Scottish Committee of the Institute of Directors. He was previously a board member of the Scottish Tourist Board, Master of the Edinburgh Merchant Company and he was national President of the Royal Warrant Holders Association. His career has included wide experience in manufacturing, retailing and exporting, particularly to Europe, North America and the Far East.

BEN THOMSON[1,2,3]

(Senior Independent Director) (date of appointment: 1 January 2008; appointed as Senior Independent Director: 12 July 2010) has a background of over 25 years in investment banking. He is Chairman of: Urbicus Ltd, Reform Scotland Limited, Inverleith Capital LLP, Barrington Stoke Limited and the National Galleries of Scotland. He was also Chairman and Chief Executive of the Edinburgh investment banking firm, Noble Group Limited, from 1997 until 2010. He is a Director of Martin Currie Global Portfolio Investment Trust PLC and the Edinburgh International Science Festival. Mr Thomson has previously been a Non-Executive Director on a number of publicly quoted and private boards.

MANAGER, SECRETARY AND REGISTERED OFFICE
FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey KT20 6RP

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

LAWYERS
Slaughter and May
One Bunhill Row
London EC1Y 8YY

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

FINANCIAL ADVISERS AND STOCKBROKERS
Cenkos Securities plc
6,7,8 Tokenhouse Yard
London EC2R 7AS

REGISTRARS
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

All of the Directors are Non-Executive Directors and (with the exception of Ms McCabe) are independent
1 Member of the Audit Committee
2 Member of the Management Engagement Committee
3 Member of the Nomination Committee

The Board's Policies

INTRODUCTION

The role of the Board of Directors of your Company includes determining the policies which govern how it is managed, which are:

INVESTMENT GOAL: CAPITAL GROWTH

The Board of Directors recognises that investing in equities is a long term process and that there will be variations from year to year in the Company's returns to shareholders. However, our primary objective is to make money for you, the shareholders, over the long term. The Board believes that investment predominantly in equities will achieve this aim and we consider a five year time span to be the most appropriate term over which to consider the success of this goal.

DIVIDEND POLICY

The portfolio is managed actively in the pursuit of capital growth. Hence, in any one year the dividend income received from investments will vary according to which stocks are owned during the period and so will the net income earned and the dividend paid.

INVESTMENT POLICY

The objective of the Company is to invest predominantly in the stocks and shares of companies with certain characteristics which, in the Portfolio Manager's judgement, offer unusual opportunities to make capital gains. These characteristics are usually found in one or more of the following investment themes:

- Turnaround or recovery situations;
- Unrecognised growth opportunities;
- Hidden jewels – an under-appreciated product or division;
- Franchises which may be subject to corporate activity

The Portfolio Manager has a distinct contrarian style which focuses on significant valuation anomalies in sectors and stocks which are unloved and under-owned by other institutional investors. Where the opposite is true the Portfolio Manager may short companies on a limited basis.

Although the portfolio consists predominantly of holdings in UK companies, up to 20% can be invested in the shares of overseas companies. The Company invests mainly in shares but may also invest in equity-related instruments (such as convertible bonds, warrants or derivative contracts) and in debt instruments. The Company may also invest up to 5% of its assets in unquoted securities, but it is unlikely that the Portfolio Manager will make such investments except where it is expected that the securities will shortly be listed. The Board has not set a policy limiting the amount that can be invested in any one security or sector other than that limited by Section 1159 of the Corporation Tax Act 2010.

The current investment approach is detailed in the Manager's Review on pages 6 to 8.

A breakdown of the current distribution of the Company's portfolio is detailed on pages 11 and 12.

USE OF DERIVATIVES

Derivatives are used on a limited basis as a tool to meet the investment objectives of the Company. They are used principally in the following ways:

1. As an alternative form of gearing to bank loans or bonds. The Company will purchase long CFDs that achieve an equivalent effect to bank gearing but often at lower financing costs.
2. To hedge equity market risks where the Portfolio Manager considers that suitable protection can be purchased to limit the downside of a falling market at a reasonable cost.
3. To enhance the investment returns by taking short exposures on stocks that the Portfolio Manager considers to be over-valued.

The Board has created strict policies and exposure limits to manage derivatives and their impacts on the different parts of the business and these are monitored on a daily basis.

CURRENCY

The Company does not carry out currency speculation. However, as a sterling based fund, investments can be made in stocks in overseas currencies and the Portfolio Manager can reduce currency exposure through the use of CFDs.

GEARING POLICY

The Board believes that long term capital growth can be enhanced by the selective use of gearing. The Portfolio Manager has the discretion to gear up to a maximum of 130% of Total Net Assets, and will use a range of instruments for gearing, such as debt and CFDs, depending on the relative cost and availability of those instruments.

LIQUIDITY POLICY

The Company will predominantly invest in securities. The Company will also ensure it has sufficient liquidity to meet its ongoing obligations.

CORPORATE ACTIVISM

The Board believes that the Company should, where necessary, 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. The Company delegates the responsibility for corporate activism and shareholder voting to Fidelity. Further details may be found in the Directors' Report on page 25.

PREMIUM/DISCOUNT MANAGEMENT

The Board seeks authority from shareholders each year to issue new shares at a premium or buy back shares at a discount to the net asset value. The Board may use these authorities to enhance the net asset value and to protect or improve the premium/discount rating of the shares.

INVESTMENT IN OTHER INVESTMENT TRUSTS

The Board has set a limit of 15% on the proportion of the Company's total assets that can be invested in the securities of other listed investment companies (including listed investment trusts) which themselves do not have stated investment policies.

Directors' Report

The Directors have pleasure in presenting their report which incorporates the Business Review together with the audited financial statements of the Company for the year ended 31 August 2011. The Company was incorporated in England and Wales as a public limited company on 27 September 1994 under the name of Fidelity Special Values PLC with the registered number 2972628.

ACTIVITIES AND STATUS

The Company carries on business as an investment trust and was provisionally approved as such by HM Revenue & Customs under Section 1159 of the Corporation Tax Act 2010 for the accounting period ended 31 August 2010, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that Section. The Company is registered as an investment company as defined in Section 833 of the Companies Act 2006 and operates as such. It is not a close company and has no employees.

BUSINESS REVIEW

INTRODUCTION

The Company is required to present a "Business Review", which provides a fair review of the Company and a description of the principal risks and uncertainties faced. It includes an analysis of the performance of the Company, both during the financial year and the position at the year end, taking into account its objective, strategy and risks and how these are measured using Key Performance Indicators ("KPIs").

OBJECTIVE & STRATEGY

The primary objective of your Company is to enhance shareholder value, achieved through long term capital growth. The Company aims to achieve this with an actively managed portfolio of special situation investments, consisting primarily of securities listed or traded on the London Stock Exchange. As is stated in the Board's Policies, which precede the Directors' Report, the Board believes that investment in such securities will achieve that long term aim and considers five years to be the most appropriate time span over which to make assessments. The Board is also aware that shareholders invest in the Company's shares because of the belief that over the long term they will earn better returns than those of the stock market as a whole, so returns are also measured against an index which reflects the performance of the stock market, the FTSE All-Share Index. Again, the Board believes that five years is the appropriate time span over which to make assessments, but progress is monitored on an ongoing basis as well. Finally, the Board is aware that shareholders invest in the shares of Fidelity Special Values PLC because FIL Investments International is the Manager and it therefore also monitors returns against those of competing investment trust companies.

Although the Board assesses performance over five year periods, the Business Review requires an annual assessment of the Company's progress and so both sets of KPIs have been provided.

ACTIVITY

The Company's activity is to pursue the objective through operating as an investment trust company. A review of the year's activities and an indication of likely future developments and the factors likely to affect this are given in the Chairman's Statement on pages 4 and 5 and in the Manager's Review on pages 6 to 8. The Board supports these views.

FIDELITY'S INVESTMENT MANAGEMENT PHILOSOPHY, STYLE AND PROCESS

Fidelity's distinctive investment approach is "bottom up" stock picking – investing in companies on the basis of their underlying strengths, facilitated by extensive research capabilities. Fidelity has over 150 analysts and research associates with a hands-on approach to knowledge accumulation. Fidelity's analysts evaluate companies, meet their management and workforce and interpret the effects of international and local events. They contact hundreds of companies every week. This first hand research is fundamental to Fidelity's ability to seek the success stories of the future. Fidelity has over 100 portfolio managers. Portfolio managers work closely with the Fidelity analyst team and also have access to a wide range of research produced by third parties.

SUMMARY REVIEW OF RESULTS FOR 2011

As outlined and explained in the Chairman's Statement, in the Manager's Review and in the financial statements, the net asset value per share, on a total return basis, decreased by 4.1% to 552.85p and shareholders' funds fell from £333.8m to £312.5m. The net income generated in the portfolio during the year, less expenses incurred, amounted to 11.43p per share. The Board is recommending to shareholders a dividend of 11.25p per share. Gross gearing exposure via derivatives at the year end was 108% (2010: 113%).

KEY PERFORMANCE INDICATORS ("KPIs")

Given the identification of the Company's objective and strategy, the Board has identified KPIs against which returns can be compared.

The objective of enhancing shareholder value is measured by the total returns of the share price; the KPI against which it is compared is the UK three month interbank rate (banks or building societies) (regarded as a low risk investment alternative). The KPIs for the objectives of higher returns than the market and the competition are the comparisons with their returns. There are three components to the returns involved in the objective of enhancing shareholder value: the NAV, dividends and the change in the discount/premium at which your shares trade to NAV.

The components of the change in the NAV include the movements in the level of the stock market, the contribution of stock selection, gearing, currencies, share repurchases/share issues, income and costs. These are analysed by the Board and the relevant KPIs involve comparisons of the NAV against competing investment trusts and the FTSE All-Share Index (the Company's benchmark), shown on page 21. A further component part of the NAV that the Directors monitor is that of the expenses of managing the Company.

BUSINESS REVIEW continued

Those expenses, expressed as a proportion of the NAV (known as the total expense ratio or "TER") are compared with the NAV returns. The change in the discount/premium is a component of the change in shareholder value and the KPI compares it with that of the Company's peer group.

SHAREHOLDER TOTAL RETURNS

Share price total return	1 year return (%)	5 years return (%)
Fidelity Special Values PLC[1]	-5.0	+4.6
Low risk investment[2]	+0.8	+16.0
Benchmark[3]	+7.3	+11.2
Peer group[4]	+9.8	+7.8

COMPANY TOTAL RETURNS

Net asset value total return	1 year return (%)	5 years return (%)
Fidelity Special Values PLC[1]	-4.1	+10.9
Benchmark[3]	+7.3	+11.2
Peer group[4]	+7.9	+11.6

ADDITIONAL KPIs

Discount as at 31 August	2011 (%)	2006 (%)
Fidelity Special Values PLC	10.6	4.8
Peer group[4]	8.5	n/a

Total Expense Ratio	2011 (%)	2006 (%)
Fidelity Special Values PLC	1.23	1.49

1 Total return including net dividend reinvested
2 UK Interbank 3m Bid rate
3 FTSE All-Share Index
4 AIC UK Growth sector

Sources: Fidelity and Datastream as at 31 August 2011

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the internal controls process, identifies the key risks that the Company faces. The matrix has identified strategic, marketing, investment management, company secretarial and other support function risks. The Board reviews and agrees policies for managing these risks. The process is regularly reviewed by the Board in accordance with the FRC's "Internal Control: Revised Guidance for Directors". Risks are identified, introduced and graded. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive internal controls reports 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. The Board's approach to risks is embedded in the Company's investment objectives and investment policy on pages 19 and 20.

EXTERNAL RISKS

MARKET RISK

The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market recessions, interest rate movements, deflation/inflation, terrorism and protectionism.

Risks to which the Company is exposed and which form part of the market risks category are included in Note 17 to the financial statements on pages 48 to 52 together with summaries of the policies for managing these risks. These are: market price risk (which comprise other price risk, interest rate risk and foreign currency risk); liquidity risk; counterparty risk and credit risk.

Long CFDs are currently used for gearing purposes. In addition a day to day overdraft facility can be used if required. The impact of limited finance from counterparties has not impacted the Company to date, however there are alternative suppliers available in the market place should the need arise.

The Company relies on a number of main service providers, namely the Manager, Registrar and Custodian. The Manager is the member of a privately owned group of companies on which a regular report is provided to the Board. The Manager, Registrar and Custodian are subject to regular audits by Fidelity's internal audit team and the counterparties' own internal controls reports are received by the Board and any concerns investigated.

SHARE PRICE RISK

Although it is usually the case that the longer a share is owned the less the risk of losing money, share prices are volatile and for the short term shareholder, likely to want to sell in the near future, volatility is a risk. The Board does not regard volatility as a significant risk for the long term shareholder.

Directors' Report

DISCOUNT RISK

The Board cannot control the discount at which the Company's share price trades to net asset value. However, it can influence this through its share repurchase policy and through creating demand for shares through good performance and an active investor relations programme.

INTERNAL RISKS

INVESTMENT MANAGEMENT

The Board relies on the Manager's skills and judgement to make investment decisions based on research and analysis of individual stocks and sectors. The Board reviews the performance of the asset value of the portfolio against the Company's benchmark and competitors and the outlook for the market with the Manager at each Board meeting. The emphasis is on long term investment performance and the Board accepts that by targeting long term results the Company risks volatility in the shorter term.

GOVERNANCE, OPERATIONAL, FINANCIAL, COMPLIANCE, ADMINISTRATION ETC

While it is believed that the likelihood of poor governance, compliance and operational administration by other third party service providers is low, the financial consequences could be serious, including the associated reputational damage to the Company. Your Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Details of this process are provided in the Corporate Governance Statement within this Annual Report.

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 received the relevant accreditations 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 pages on the Manager's website www.fidelity.co.uk/its. Details about Fidelity's own community involvement may be found on its website, www.fidelity.co.uk.

DIRECTORS' REPORT – GENERAL

THE BOARD

All appointments to the Board, re-elections and replacements of Directors take place in accordance with the Companies Act 2006 and the Company's Articles of Association. All of the Directors served throughout the year ended 31 August 2011 and their biographical details are set out on page 18.

Since 2004, the Board has followed a process whereby all Directors are subject to re-election on an annual basis. Information on the process of appointment, re-election and replacement of Directors is included in the Corporate Governance Statement.

Nicky McCabe is Chief Operating Officer of Moonray Investors, a division of FIL Limited Group. Nicky McCabe has waived her entitlement to Director's fees.

No Director has 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 in relation to Nicky McCabe's interests in the Management Agreement. There have been no other related party transactions requiring disclosure under Financial Reporting Standard ("FRS") 8.

The Board considers that it meets sufficiently regularly to discharge its duties effectively and the first table below gives the attendance record for the meetings held during the year.

The interests of the Directors and FIL Limited in the ordinary shares of the Company as at 31 August 2011 and 31 August 2010 are shown in the second table below and the table on page 24.

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
Lynn Ruddick*	5/5	1/1	1/1	1/1
Sharon Brown	5/5	1/1	2/2	1/1
Andy Irvine	5/5	1/1	2/2	1/1
Douglas Kinloch Anderson	5/5	1/1	2/2	1/1
Nicky McCabe	4/5	0/1	n/a	n/a
Ben Thomson	5/5	1/1	2/2	1/1

* Retired as Chairman of the Audit Committee on 26 October 2010

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.

	Number of ordinary shares held at 31 August 2011	Number of ordinary shares held at 31 August 2010	Changes
Lynn Ruddick	7,803	7,665	138 shares acquired due to automatic dividend reinvestment
Sharon Brown	2,000	nil	2,000 shares acquired August 2011
Andy Irvine	10,000	10,000	No change
Douglas Kinloch Anderson	18,134	18,011	123 shares acquired due to automatic dividend reinvestment
Nicky McCabe	1,000	1,000	No change
Ben Thomson	nil	nil	No change
FIL Limited	nil	nil	No change

Directors' Report

SUBSTANTIAL SHARE INTERESTS

At the date of this report notification had been received that the shareholders listed in the table below held more than 3% of the voting rights and/or issued share capital of the Company.

Shareholders	Number of ordinary shares	%
FIL Limited[1]	19,211,595	34.02
Henderson Global Investors[2]	3,181,375	5.63
Brewin Dolphin[3]	2,048,869	3.63
Alliance Trust[2]	2,016,597	3.57
Legal & General Investment[2]	1,984,521	3.51

1 Held in aggregate by investors in the Fidelity ISA and the Fidelity Investment Trust Share Plan
2 Direct and indirect holdings for clients and on own account
3 Indirect holdings

An analysis of ordinary shareholders as at 31 August 2011 is detailed in the table below.

Analysis of ordinary shareholders as at 31 August 2011	% of issued share capital
Private shareholders[1]	78.39
Pensions	8.21
Institutions	8.05
Insurance	4.65
Other	0.70
	100.00

1 Includes Share Plan and ISA investors

SHARE CAPITAL

The Company's issued share capital comprises ordinary shares of 25 pence each. As at 31 August 2011 the total number of shares in issue was 56,528,896 (2010: 56,938,896). Each share 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 are detailed in the Notes to the Notice of Meeting on pages 55 and 56. The Company's ordinary shares have a premium listing on the London Stock Exchange.

SHARE ISSUES

No shares were issued during the year and none have been issued since the year end. The authority to issue shares and disapply pre-emption rights, granted by shareholders at the Annual General Meeting held on 15 December 2010, expires at the conclusion of the next 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 15 December 2011.

SHARE REPURCHASES

At the Annual General Meeting held on 15 December 2010 the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 8,535,140 ordinary shares in the market for cancellation. 410,000 shares were repurchased for cancellation during the year (2010: nil) and 310,000 shares have been repurchased for cancellation since the year end.

DIRECTORS AND OFFICERS' LIABILITY INSURANCE

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

ARTICLES OF ASSOCIATION

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

POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations during the year (2010: nil).

PAYMENT OF CREDITORS

The Company's principal supplier is the Manager which 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 years to 31 August 2011 and 31 August 2012, 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 under review (2010: nil). Other suppliers are paid in accordance with the individual payment terms agreed with each supplier.

MANAGEMENT COMPANY

The Manager, FIL Investments International, a subsidiary of FIL Limited, provides management, accounting, administrative and secretarial services to the Company under an agreement (the "Management Agreement") entered into on 6 February 2006. The Management Agreement replaced that between the same parties dated 19 October 1994 and provides for an annual fee of an amount equal to 0.875 per cent of net assets per annum for investment management and £600,000 for non-portfolio management services payable quarterly in arrears and calculated as of the last business day of March, June, September and December in each year. In computing the net asset value, the value of any investment in any fund which is managed by the Manager or an associate of the Manager is excluded.

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 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 sixty days' notice if the Manager ceases to be a subsidiary of FIL Limited.

The Management Engagement Committee has reviewed the performance of the Manager taking into consideration those items in the Corporate Governance Statement on pages 28 to 32 of this Annual Report. The Committee concluded that, although returns in the short term had been below the benchmark, it was in the long term interests of shareholders that the Management Agreement should continue.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity ISA under an agreement dated 17 April 1996. The amount payable for these services for the year to 31 August 2011 is £104,000 (2010: £170,000). An amount of £1,726,000 (2010: £700,000) was due to the Manager under all the above agreements at 31 August 2011 and is included in other creditors in Note 12 on page 46.

Fidelity operates a broker segmentation policy, which 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 and included in the gains/(losses) on sales of investments in Note 9 on page 44. In the year to 31 August 2011 £104,000 was received (2010: £114,000).

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.

RESPONSIBILITY AS AN 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

SOCIALLY RESPONSIBLE INVESTMENT

The Manager's primary objective is to produce superior financial returns for the Company's shareholders. 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 the Manager's view, these have a material impact on either investment risk or return.

RELATIONS WITH SHAREHOLDERS

The Chairman is responsible for ensuring that all Directors are made aware of shareholders' concerns and this is done through a combination of meetings with shareholders and feedback from the Company's stockbroker and Fidelity. Analyst and stockbroker meetings with the Portfolio Manager are held throughout the year. The shareholder profile of the Company is regularly monitored. It is believed that shareholders have proper access to the Manager at any time and to the Board, if they so wish. Members of the Board may be contacted through the Company Secretary whose details are given on page 18.

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.

The Notice of Meeting on pages 53 and 54 sets out the business of the meeting and the special resolutions are explained more fully on page 26. A separate resolution is proposed on each substantially separate issue including the annual report and financial statements.

The Chairman of the Board, the Chairman of the Audit Committee and other Directors 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.

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.

The Board is recommending to shareholders the approval of a dividend of 11.25 pence per share for the year ended 31 August 2011. If approved, this dividend will be paid on 19 December 2011 to shareholders on the register on 18 November 2011. The ex-dividend date will be 16 November 2011. In addition, resolutions will be imposed 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 ("AGM") and to 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.

Directors' Report

Resolution 12 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,405,472. If passed, this resolution will enable the Directors to allot a maximum of 5,621,888 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company as at 4 November 2011. The Directors would not intend to use this power unless the premium was in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

Resolution 13 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £1,405,472 (approximately 10% of the issued ordinary share capital of the Company as at 4 November 2011).

Resolution 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue on 4 November 2011 for cancellation. Purchases of ordinary shares will be 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 per share, thereby resulting in an increased net asset value per share. **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 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 which forms part of the Directors' Report, which can be found on pages 28 to 32.

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 AGM 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 in the Business Review on pages 20 and 21. The financial position of the Company, its cash flows, liquidity position and gearing are described in the Financial Statements and Notes thereto on pages 35 to 52.

The Company's objectives, policies and processes for managing its capital, financial risk management objectives, details of financial instruments and its exposures to credit and liquidity risk are also set out on pages 20 to 22 and in the Note 17 to the Financial Statements on pages 48 to 52.

The Company's assets consist mainly of securities which are readily realisable and, where outsourcing arrangements are in place, alternative service 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 the 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 votes are held every three years and the next continuation vote will be put to shareholders at the 2013 AGM.

By Order of the Board
FIL Investments International
Secretary
4 November 2011

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. 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 have delegated the responsibility 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 to the Manager. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other 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 4 November 2011 and signed on its behalf by

Lynn Ruddick

Lynn Ruddick
Chairman
4 November 2011

Corporate Governance Statement

"Corporate governance" is the process by which a board of directors of a company looks after the shareholders' interests and by which it endeavours to enhance those interests (often referred to as "shareholder value"). Shareholders hold the directors responsible for the stewardship of a company's affairs, delegating authority to the directors to manage the company on their behalf and holding them accountable for its performance.

This report, which forms part of the Directors' Report, explains how the Directors of Fidelity Special Values PLC deal with that responsibility, authority and accountability.

CORPORATE GOVERNANCE REQUIREMENTS

Part of the London Stock Exchange's Listing Rules is the requirement for all listed companies to set out a statement in their annual reports on how they comply – or if not explain why not – with the provisions of the UK Corporate Governance Code (formerly the Combined Code). Because investment trust companies differ in many ways from conventional operating companies, the Association of Investment Companies has drawn up its own set of guidelines ("the AIC Code of Corporate Governance") which meet with the approval of the Financial Reporting Council and which form the basis of Fidelity Special Values' own compliance.

To add to that the Disclosure and Transparency Rules ("DTR"), require that certain extra information be reported in the corporate governance statement. Because some of it is not relevant to a charter of the general principles and practice of the Board's governance of the Company (the purpose of a corporate governance statement), that information has been set out in detail in the Directors' Report on pages 20 to 26. A section of this statement at the end, entitled "Disclosure and Transparency Rules", provides a list of the information that is required and where it can be found in the Directors' Report.

There are 21 principles which form the substance of the AIC's Code of Corporate Governance. The complete details of how your Company has adopted them are provided in its corporate governance schedule which is available for inspection by shareholders and investors at the Company's registered office, Fidelity's Investor Centre and on the website. This takes each of the detailed points in the AIC's Code of Corporate Governance and sets out exactly how the Board has chosen to respond to those points. This report contains a summary of how the Board has adopted these principles.

THE CORPORATE GOVERNANCE OF AN INVESTMENT TRUST COMPANY

The corporate governance of most investment trust companies, including Fidelity Special Values PLC, is different from most other commercial companies in one important respect: they do not employ their own people as management but rather the services of a fund management company. This affects the way investment trusts are governed but not the purpose of their governance. Given that the Manager's business is not dedicated solely to the interests of investment trust companies and their shareholders, the composition of investment trust boards of directors must be largely independent of management. However, it must have the knowledge and experience of both fund management and investment trust management, which the presence of executive management on other commercial boards brings to their corporate governance. Fidelity Special Values PLC was established and is managed and promoted by its Manager, which is therefore one of the main reasons shareholders choose to invest in the Company's shares.

It follows that it is an important aspect of the corporate governance of Fidelity Special Values PLC that its Manager should be party to the responsibility, authority and accountability to those investing in their management.

THE CORPORATE GOVERNANCE POLICIES AND MODUS OPERANDI OF FIDELITY SPECIAL VALUES PLC

The corporate governance of any investment trust company, while following the guidelines of the AIC Code of Corporate Governance, will vary in certain respects depending on its own circumstances. The Board of Fidelity Special Values PLC has considered its own circumstances and determined its own corporate governance policies and modus operandi.

In this section we have outlined the corporate governance policies and modus operandi through the following three aspects of corporate governance: Responsibility, Authority and Accountability. It is first of all important that shareholders have confidence in the Board of Directors, whom they hold responsible and accountable for the Company's affairs.

In determining the guidelines for the composition of the Board, the Directors believe that there should be a clear majority of the Board members (including the Chairman), who are independent of management, and that the make up of the Board should bring understanding and experience of investment management, investment trust management, the investment objective of the Company, marketing, general business experience and finally of Fidelity's investment philosophy and its operations.

While the key determinant of independent behaviour stems from personal character, the Directors recognise that any individual who is employed by or otherwise materially financially associated with the Manager, FIL Investments International, cannot be regarded as independent. However, the Board regards it as helpful to have one senior executive from FIL Investments International serving as a Director. Other relationships or time served as a Director are not regarded prima facie as compromising independent behaviour but may nevertheless be of interest to shareholders and consequently the details and the Directors' current business associations are set out on page 18 for shareholders' perusal. All of the independent Directors are considered to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement and all of the Directors are able to allocate sufficient time to the Company to discharge their responsibilities fully and effectively. The Board follows a procedure of notification of other interests that may arise as part of considering any potential conflicts.

All of the Directors are non-executive and five of the six have no relationship with the Manager. In addition the Board has appointed Ben Thomson as Senior Independent Director in which he fulfils the role as a "sounding board" for the Chairman and as intermediary for other non-executive Directors where necessary.

Corporate Governance Statement

Each Director's individual independence, including that of the Chairman, has been considered, taking into consideration:

- integrity, selflessness, intelligent scepticism (but not cynicism), positiveness, courageousness and decisiveness;
- independence of mind and character;
- experience and knowledge of investment trusts, of the investment business generally and of Fidelity;
- financial literacy;
- conflicts of interest; and
- performance as a Director.

Based on the above considerations all five non-Fidelity Directors, including the Chairman, have been assessed and are considered to be independent.

Tenure, the term served by a director of a company, is a controversial issue. It is the belief of the Board that it can best do its job if it works as a team composed of individuals who work well together, if each contributes to its performance. In order to do so it believes that its membership benefits from the inclusion of both Directors who have served a long time and bring both experience and past knowledge of the Company (and its business) to its governance and also include newer members who bring additional/further attributes to the Company's governance.

Recognising that different shareholders have different views on tenure, the Board decided in 2004 that each Director would be subject to annual re-election by shareholders.

The Board considers that it meets sufficiently regularly to discharge its duties efficiently. The attendance record for the meetings held in the year can be found in the Directors' Report on page 23.

RESPONSIBILITY

The responsibilities delegated by shareholders to the Board of Directors include:

1. The stewardship and monitoring of the affairs of the Company, which includes the management of risk and the monitoring of the controls at work in the Company;

2. The promotion of the Company's prosperity so as to endeavour to maximise shareholder value in the long term, which includes the responsibility for the appropriateness of the Company's investment objective, investment strategy and investment performance and for the Company's efforts in seeking to minimise the level and the volatility of the discount or premium at which the shares may sell in relation to the net asset value. The Company's investment policy is detailed on page 19; and

3. Making recommendations to shareholders (for their consideration at annual general meetings) on matters not delegated to the Board of Directors, which include the approval of the annual financial statements, the election and re-election of Directors and the appointment of the Auditor.

   The Board believes that a good working relationship comes from the Board and management working harmoniously together: in particular the Board should support the Manager in difficult times but challenge it when necessary; it is a sine qua non to good performance.

AUTHORITY

The Board of Directors is furnished by the shareholders with the authority to manage the Company on their behalf, being required to discharge the responsibilities outlined above. The Board, being wholly non-executive and (by majority) independent of management, carries out its duties through the mechanism of Board meetings and Board Committee meetings. The most important aspect of the Directors' duties concerns the management of the Company's portfolio of assets and of the risk profile of its balance sheet. While the day to day investment management is delegated to FIL Investments International, there are certain decisions which are retained and made by the Directors, including the payment of dividends, the share repurchase guidelines and the derivatives and gearing policies.

In structuring the Board meetings, the Directors try to concentrate as much as possible of their regular Board meetings on (i) investment matters (including strategy, investment policy, gearing and derivatives policies, portfolio and stock reviews, portfolio turnover, monitoring performance etc) and (ii) shareholder value matters (including monitoring the discount, share repurchases and Fidelity's Investment Trust Share Plan and ISA marketing). 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 meets regularly with the Company's financial advisers and stockbrokers to discuss shareholder value and investor relation issues while the Manager meets with the larger shareholders at least once a year and reports back to the Board on those meetings. 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 of Directors discharges certain of its corporate governance responsibilities through three Committees:

– THE AUDIT COMMITTEE

The Audit Committee is chaired by Sharon Brown and consists of all of the independent Directors, except for Lynn Ruddick, and is charged with reviewing and monitoring the production of the annual and half-yearly financial statements, the audit process, corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Section 1159), the relationship with and performance of other third party service providers (such as the Registrar or the Custodian), considering the risks associated with audit firms withdrawing from the market and the relationship with the independent Auditor (and its ongoing appointment and level of fees). Finally it also has responsibility for reviewing and monitoring 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, including the appointment, reappointment or removal of the Auditor as appropriate.

Corporate Governance Statement

The Auditor's continued appointment is reviewed each year and the audit partner changes at least once every five years. The last review of alternative audit service providers took place in 2006 resulting in a change in audit firm. There are no contractual obligations that restrict the Committee's choice of Auditor. The Committee meets with the independent Auditor at least once a year to review all these matters. The Committee itself meets at least twice a year and reports to the Board of Directors, making recommendations where appropriate.

The continued increase in the scope and in the technical nature of the work of the Committee means that its Chairman must have – and does have – recent and relevant financial experience.

– THE MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee is chaired by Lynn Ruddick and consists of all of the independent Directors. It is charged with reviewing and monitoring the performance of the Manager in respect of its contract and the fees it is paid.

This Committee meets at least once a year and reports to the Board of Directors, making recommendations where appropriate.

The level of remuneration of the Manager is determined by the Management Engagement Committee; the fee relates to the investment management function, on which a percentage of funds under management is paid (thereby relating this part of its remuneration to performance) and a set fee for the administrative function.

The Board of Directors is mindful that the amounts paid to the Manager should be sufficient to ensure that both the Portfolio Manager and the administrators within the management house appointed to the job of looking after its affairs are highly skilled and that those individuals should be largely focused on the Company's business.

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, use of derivatives, hedging, share repurchases 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 NOMINATION COMMITTEE

The Nomination Committee, chaired by Lynn Ruddick, consists of all the Directors and is charged with:

1. nominating new Directors for consideration by the Board of Directors, in turn for approval by shareholders; and
2. consideration of the re-appointment of Directors.

In respect of new Directors the Board believes that it is important in the search for, the interview of and recommendation to the Board of a candidate that it be controlled by the independent Directors who in turn form the majority of this Committee. After consideration of the attributes considered necessary for the appointment of a new Director, members of the Committee recommend a number of candidates for consideration as a Director of the Company. In the event that insufficient suitable candidates are identified, an external consultant would be used. The Board carries out its candidate search from the widest possible pool of talent against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board.

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

It is the policy of the Board for all Directors to retire and seek re-election at each annual general meeting (AGM) of the Company. Biographical details for each Director are set out on page 18 to provide sufficient information to enable shareholders to make an informed decision regarding their re-election. In addition, the terms and conditions of appointment of Directors are available for inspection at the registered office of the Company and will be available prior to the forthcoming AGM.

A formal annual process for the evaluation of the Board and its Committees is in place. This takes the form of written questionnaires and, if appropriate, interviews. The performance of the Chairman is evaluated by the other Directors on an annual basis. The Company Secretary and Manager also participate in these processes to provide all round feedback to the Board. The results of these evaluations are issued to and discussed by the Board. 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. As a consequence of this process the Board has decided not to undertake an externally facilitated evaluation.

Corporate Governance Statement

Each Committee has written terms of reference which are available for inspection at the Company's registered office and on the Company's pages of the Manager's website.

ACCOUNTABILITY

Given that the shareholders entrust the Board of Directors with the management of the Company's affairs, it is necessary that the Board accounts for itself to shareholders. The process of accountability involves providing all the necessary information for shareholders to make judgements about the Board's stewardship and performance through a full and informative annual financial report, a half-yearly financial report, interim management statements, accessibility to the Board at any time through the office of the Chairman and finally the presentation of the results (the financial statements) and future prospects at the AGM.

The AGM is the pivotal point in the relationship between the Board of Directors and shareholders and is the occasion when the Board accounts for itself in a public meeting. It regards any bona fide issue that any shareholder raises as one that should be put to all shareholders at the AGM so that all those attending can hear any concerns expressed in open forum and make their own judgement accordingly. The AGM provides shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board of Directors. This includes the re-election of Directors every year in addition to the normal matters of approving the financial statements, the appointment of the independent Auditor, the issue of new shares and the repurchase of shares for cancellation. Your Board has an established policy that should enable shareholders to decide whether they wish to continue the Company's existence by putting a "continuation vote" before the shareholders at every third AGM. The next such vote will be at the AGM to be held in 2013, the last being at the AGM held on 15 December 2010.

THE 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

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. The Board receives this information in due time in a form and of a quality appropriate to enable it to discharge its duties.

AIC CODE

The Board of Fidelity Special Values PLC has considered the principles and recommendations of the Association of Investment Companies ("AIC") Code of Corporate Governance ("the AIC Code") by reference to the AIC Corporate Governance Guide ("the 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 Corporate Governance Code ("UK Code") as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The AIC Code and the AIC Guide may be found at www.theaic.co.uk. 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 Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below. The UK Code includes provisions relating to:

- The Management Engagement Committee being chaired by the Chairman of the Board.
- 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 the preamble to the UK Code, the Board considers that these issues are not relevant to the position of Fidelity Special Values PLC, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

INTERNAL CONTROL

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Its review takes place at least once a year. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board also determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's principal business and operational risks, that it has been in place for the year ended 31 August 2011 and up to the date of approval of the annual report and financial statements, and that it is regularly reviewed by the Board. This process is in accordance with the FRC's "Internal Control: Revised Guidance for Directors".

The Board is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company although these tasks have been delegated on a day to day basis to the Manager. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the Board and the Manager and regular reports on controls and compliance issues are provided to the Audit Committee and the Board. In carrying out its review, the Audit Committee has had regard to the activities of the Manager, the Manager's compliance and risk functions and the independent Auditor. The Audit Committee's and Board's review also includes consideration of internal controls and similar reports issued by the Manager and other service providers.

The Board has reviewed the need for an internal audit function. In keeping with most other investment trust companies the Board has decided that the systems and procedures employed by the

Corporate Governance Statement

Manager, including its internal audit function, 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 meets the Manager's Head of Internal Audit at least twice a year. The Chairman of the Audit Committee has direct access to the Manager's Head of Internal Audit and vice versa.

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 is setting 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.

DISCLOSURE AND TRANSPARENCY RULES

As already stated in the second section of this Corporate Government Statement entitled Corporate Governance Requirements, certain extra information is required to be given. Because some of it is information which refers to events that have taken place during the course of the year, it has been placed in the Directors' Report on pages 22 to 26.

The following is a list of that information:

Information concerning the service of the Directors on the Board and changes to the Company's Articles of Association
Attendance at Board and Committee meetings
Directors' shareholdings
Directors and Officers' liability insurance
Going concern
Substantial share interests
Share capital
Share issues
Share repurchases
Responsibility as an Institutional Shareholder
Relations with Shareholders
Environmental, Employee, Social and Community matters

On behalf of the Board

Lynn Ruddick
4 November 2011

Directors' Remuneration Report

This report has been prepared in accordance with the requirements of Section 420 – 422 of the Companies Act 2006 in respect of the year ended 31 August 2011. 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 34.

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 the Board of Directors to a total of £200,000 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 August 2011 or the year ended 31 August 2010. 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 August 2012 and for subsequent years. The fee structure with effect from 1 January 2011 is as follows: Chairman - £36,000; Chairman of the Audit Committee - £26,000; and Director - £23,000.

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

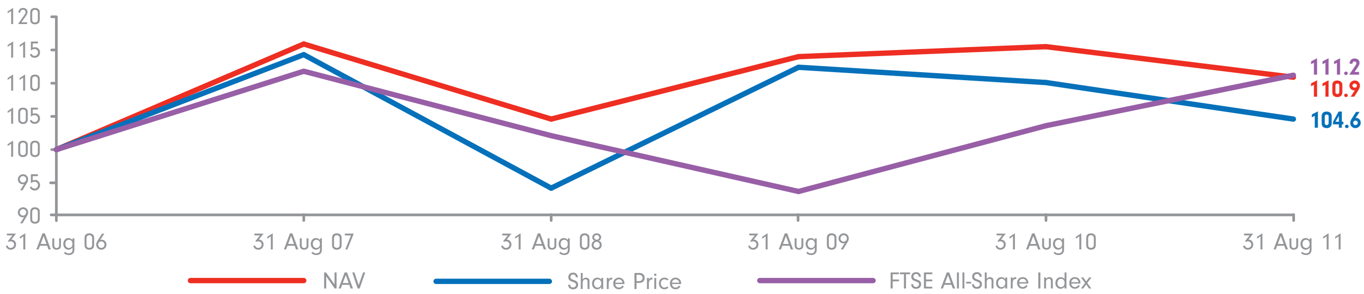
The Company's investment objective is capital growth. The graph below measures this against its benchmark, the FTSE All-Share Index.

REMUNERATION OF DIRECTORS (AUDITED)

	2011 £	2010 £	Notes
Lynn Ruddick	35,667	26,170	Appointed Chairman 9 July 2010
Sir Richard Brooke	n/a	6,153	Retired 16 December 2009
Sharon Brown*	25,417	8,237	Appointed 15 April 2010
Alex Hammond-Chambers	n/a	29,261	Retired 8 July 2010
Andy Irvine	22,667	8,237	Appointed 15 April 2010
Douglas Kinloch Anderson	22,667	21,667	
Nicky McCabe	–	–	Continues to waive her Director's fees
Ben Thomson	22,667	21,667	
Total	**129,085**	**121,392**	

* Appointed Chairman of the Audit Committee on 26 October 2010

Comparison of NAV and Share Price Total Return Performance against the Benchmark Index from 31 August 2006 to 31 August 2011



Sources: Fidelity and Datastream

Lynn Ruddick

Lynn Ruddick
4 November 2011

Independent Auditor's Report to the Shareholders of Fidelity Special Values PLC

We have audited the financial statements of Fidelity Special Values PLC for the year ended 31 August 2011 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 THE DIRECTORS AND THE AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, 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 to 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 August 2011 and of its 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;
- 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 26, 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.

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
4 November 2011

Income Statement for the year ended 31 August 2011

	Notes	2011 revenue £'000	2011 capital £'000	2011 total £'000	2010 revenue £'000	2010 capital £'000	2010 total £'000
(Losses)/gains on investments designated at fair value through profit or loss	9	–	(17,846)	(17,846)	–	3,613	3,613
Losses on investments via long CFDs held at fair value through profit or loss	10	–	(6,642)	(6,642)	–	(5,046)	(5,046)
Gains/(losses) on options and short CFDs held at fair value through profit or loss	10	–	5,147	5,147	–	(173)	(173)
Net income	2	10,517	–	10,517	10,866	–	10,866
Investment management fee	3	(3,711)	–	(3,711)	(3,515)	–	(3,515)
Other expenses	4	(562)	–	(562)	(587)	–	(587)
Exchange gains/(losses) on other net assets		1	(67)	(66)	(4)	(117)	(121)
Net return/(loss) before finance costs and taxation		6,245	(19,408)	(13,163)	6,760	(1,723)	5,037
Finance costs	5	–	–	–	(591)	–	(591)
Net return/(loss) on ordinary activities before taxation		6,245	(19,408)	(13,163)	6,169	(1,723)	4,446
Taxation on return on ordinary activities	6	250	–	250	(56)	–	(56)
Net return/(loss) on ordinary activities after taxation for the year		6,495	(19,408)	(12,913)	6,113	(1,723)	4,390
Return/(loss) per ordinary share	7	11.43p	(34.17p)	(22.74p)	10.74p	(3.03p)	7.71p

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 39 to 52 form an integral part of these financial statements.

Balance Sheet as at 31 August 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments designated at fair value through profit or loss	9	301,931	323,663
Current assets			
Derivative assets held at fair value through profit or loss	10	1,553	1,995
Debtors	11	3,077	2,451
Amounts held at futures clearing houses and brokers		5,359	2,470
Cash at bank		7,716	11,165
		17,705	18,081
Creditors			
Derivative liabilities held at fair value through profit or loss	10	(4,881)	(4,180)
Other creditors	12	(2,234)	(3,781)
		(7,115)	(7,961)
Net current assets		10,590	10,120
Total net assets		312,521	333,783
Capital and reserves			
Share capital	13	14,131	14,234
Share premium account		95,767	95,767
Capital redemption reserve		2,657	2,554
Other non-distributable reserve		5,152	5,152
Capital reserve		186,987	208,765
Revenue reserve		7,827	7,311
Total equity shareholders' funds		312,521	333,783
Net asset value per ordinary share	14	552.85p	586.21p

The financial statements on pages 35 to 52 were approved by the Board of Directors on 4 November 2011 and were signed on its behalf by:

Lynn Ruddick

Lynn Ruddick
Chairman

The Notes on pages 39 to 52 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 August 2011

	Note	share capital £'000	share premium account £'000	capital redemption reserve £'000	other non-distributable reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
Opening shareholders' funds: 1 September 2010		14,234	95,767	2,554	5,152	210,488	6,323	334,518
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	–	(1,723)	6,113	4,390
Dividend paid to shareholders	8	–	–	–	–	–	(5,125)	(5,125)
Closing shareholders' funds: 31 August 2010		14,234	95,767	2,554	5,152	208,765	7,311	333,783
Repurchase of ordinary share		(103)	–	103	–	(2,370)	–	(2,370)
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	–	(19,408)	6,495	(12,913)
Dividend paid to shareholders	8	–	–	–	–	–	(5,979)	(5,979)
Closing shareholders' funds: 31 August 2011		14,131	95,767	2,657	5,152	186,987	7,827	312,521

The Notes on pages 39 to 52 form an integral part of these financial statements.

Cash Flow Statement for the year ended 31 August 2011

	Notes	2011 £'000	2010 £'000
Operating activities			
Investment income received		4,093	4,823
Net derivative (expenses)/income		(54)	236
Underwriting income received		–	28
Deposit interest received		57	17
Investment management fee paid		(2,790)	(3,518)
Directors' fees paid		(121)	(122)
Other cash (payments)/receipts		(367)	52
Net cash inflow from operating activities	15	818	1,516
Servicing of finance			
Interest paid		–	(736)
Net cash outflow from the servicing of finance		–	(736)
Taxation			
Overseas taxation recovered		290	25
Taxation recovered		290	25
Financial investment			
Purchase of investments		(197,893)	(187,551)
Disposal of investments		204,937	223,444
Net cash inflow from financial investment		7,044	35,893
Derivative activities			
Premium paid on options		(810)	(1,390)
Premium received on options		2,134	1,111
(Payments)/proceeds of derivative instruments		(1,676)	406
Movements on amounts held at futures clearing houses and brokers		(2,889)	(1,627)
Net cash outflow from derivative activities		(3,241)	(1,500)
Dividend paid to shareholders	8	(5,979)	(5,125)
Net cash (outflow)/inflow before financing		(1,068)	30,073
Financing			
Repurchase of ordinary shares		(2,370)	–
Fixed rate unsecured loan repaid		–	(27,000)
Net cash outflow from financing		(2,370)	(27,000)
(Decrease)/increase in cash	16	(3,438)	3,073

The Notes on pages 39 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 will be granted.

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. UK franked dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. Interest receivable on short term deposits is dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash foregone, the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement.

Derivative income received from dividends on long Contracts For Difference ("CFDs"), interest received on short CFDs, derivative expenses paid out as dividends on short CFDs and interest on long CFDs are included in 'Net income' in the income 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. Finance costs are accounted for using the effective interest rate method and in accordance with the provisions of Financial Reporting Standard ("FRS") 26 "Financial Instruments: Recognition and Measurement".

e) Taxation - 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 tax 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 calculated in UK sterling at the rate of exchange ruling as at the date of 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 capital reserve.

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 and other key management personnel. Accordingly, upon initial recognition the investments are designated by the Company as "at fair value through profit or loss". They are included initially, and subsequently measured, at fair value, which is measured as follows:

- Listed investments and AIM quoted investments are valued at bid prices, or last prices, depending on the convention of the exchange on which they are listed, or otherwise at fair value based on published price quotations;
- 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 or losses on investments and has disclosed them in Note 9 on page 44.

Notes to the Financial Statements

h) Derivative instruments - When appropriate, permitted transactions involving derivative instruments are used. The Company may enter into futures, equity forwards, CFDs and options. Derivatives are measured at fair value as follows:

- Futures and options - the quoted trade price for the contract;
- CFDs and equity forwards - the difference between the strike price and the bid or last price of the shares in the security that underlies the contract.

Where transactions are used to protect or enhance income, if the circumstances support this, then the income and expenses derived from them are included in 'Net income' via the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the gains and losses derived from them are included: for long CFDs as 'Gains/(losses) on investments via long CFDs held at fair value through profit or loss'; and for options and short CFDs as 'Gains/(losses) on options and CFDs held at fair value through profit or loss' via the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected in the Balance Sheet at their fair value within 'Current assets' and 'Creditors'.

i) Gearing - The Company has no financial gearing via bank loans. However, the Company achieves a geared position through the use of CFDs.

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

- Gains and losses on the disposal of investments, including derivative assets and liabilities if in accordance with Note 1(h);
- Changes in the fair value of investments held at year end, including derivative assets and liabilities if in accordance with Note 1(h);
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature; and
- Costs of repurchasing ordinary shares.

As a result of technical guidance issued 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, with the exception of unlisted investments with a fair value of £411,000 (2010: £86,000).

k) Dividends - In accordance with Financial Reporting Standard 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.

2. INCOME

	2011 £'000	2010 £'000
Income from investments designated at fair value through profit or loss		
UK dividends	4,413	3,671
UK scrip dividends	5,499	5,531
Overseas dividends	178	764
Overseas scrip dividends	–	320
Income from REIT investments	481	273
	10,571	10,559
Income from derivative instruments designated at fair value through profit or loss		
Interest received on short CFDs	41	11
Dividends received on long CFDs	727	680
	11,339	11,250

Notes to the Financial Statements

2. INCOME (continued)	2011 £'000	2010 £'000
Other income		
Deposit interest	57	18
Underwriting commission	–	28
Total income	11,396	11,296
Expenses on derivative instruments designated at fair value through profit or loss		
Interest paid on long CFDs	(452)	(329)
Dividends paid on short CFDs	(427)	(92)
Expenses on futures and equity forwards	–	(9)
Total net income	10,517	10,866

3. INVESTMENT MANAGEMENT FEE	2011 £'000	2010 £'000
Investment management fee	3,711	3,515

A summary of the terms of the Management Agreement is given in the Directors' Report on pages 24 and 25.

4. OTHER EXPENSES	2011 £'000	2010 £'000
AIC fees	35	30
Custody fees	17	14
Directors' expenses	22	27
Directors' fees*	129	121
Legal and professional fees	61	43
Marketing expenses	104	170
Printing and publication expenses	91	71
Registrars' fees	65	72
Fees payable to the Company's Auditor for the audit of the annual financial statements **	20	20
Other expenses	18	19
	562	587

* Details of the breakdown of Directors' fees are provided on page 33 within the Directors' Remuneration Report
** The VAT on Auditor's remuneration is included in other expenses

Notes to the Financial Statements

	2011 £'000	2010 £'000
5. FINANCE COSTS		
Loans repayable within five years		
Interest paid on fixed rate unsecured loans	–	591

6. TAXATION ON RETURN/(LOSS) ON ORDINARY ACTIVITIES

a) Analysis of the taxation (credit)/charge for the year

	2011 revenue £'000	2011 capital £'000	2011 total £'000	2010 revenue £'000	2010 capital £'000	2010 total £'000
Overseas taxation recovered	(253)	-	(253)	-	-	-
Overseas taxation suffered	3	-	3	56	-	56
Total current taxation (credit)/charge for the year (see Note 6b)	(250)		(250)	56	-	56

b) Factors affecting the taxation (credit)/charge for the year

The taxation (credited)/charged for the year is lower than the standard rate of corporation tax in the UK for an investment trust company of 27.17% (2010: 28%).

The differences are explained below.

	2011 £'000	2010 £'000
Net (loss)/return on ordinary activities before taxation	(13,163)	4,446
Net (loss)/return on ordinary activities before taxation multiplied by the standard rate of corporation tax of 27.17% (2010: 28%)	(3,576)	1,245
Effects of:		
Losses on investments not taxable	5,273	508
Income not taxable	(2,741)	(2,910)
Excess management expenses not utilised in the year	1,044	1,151
Disallowable expenses	–	6
Overseas taxation recovered	(253)	–
Overseas taxation suffered	3	56
Current taxation (credit)/charge (Note 6a)	(250)	56

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

c) The Company has unrelieved excess expenses of £40,921,000 (2010: £37,067,000). It is unlikely that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

Notes to the Financial Statements

	2011 revenue	2011 capital	2011 total	2010 revenue	2010 capital	2010 total
7. RETURN/(LOSS) PER ORDINARY SHARE						
Basic	11.43p	(34.17p)	(22.74p)	10.74p	(3.03p)	7.71p

The return/(loss) per ordinary share is based on the net return on ordinary activities after taxation and the weighted average number of ordinary shares in issue for the year ended 31 August 2011. The returns for the year were: revenue return £6,495,000 (2010: £6,113,000), capital loss £19,408,000 (2010: £1,723,000) and total loss £12,913,000 (2010: return £4,390,000). The weighted average number of ordinary shares in issue during the year was 56,801,156 (2010: 56,938,896).

	2011 £'000	2010 £'000
8. DIVIDENDS		
Final dividend of 10.50 pence per share paid for the year ended 31 August 2010 (2009: 9.00 pence)	5,979	5,125

The Directors have proposed a final dividend of 11.25 pence per share which is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total dividend payable in respect of the year ended 31 August 2011, which is the amount distributable for the year on which compliance with the retention test, Condition D of Section 1159 of the Corporation Tax Act 2010 is considered, is shown below:

	2011 £'000	2010 £'000
Proposed final dividend of 11.25 pence per share for the year ended 31 August 2011 (2010: 10.50 pence) based on the number of shares in issue as at the date of this annual report	6,325	5,979

	2011 £'000	2010 £'000
9. INVESTMENTS		
Investments designated at fair value through profit or loss		
Listed investments	295,856	314,009
AIM quoted investments	5,664	9,568
Unlisted investments	411	86
Total investments	301,931	323,663

Notes to the Financial Statements

9. INVESTMENTS (continued)

	listed investments £'000	2011 other investments £'000	total investments £'000
Opening book cost	320,521	15,328	335,849
Opening investment holding losses	(6,512)	(5,674)	(12,186)
Opening fair value of investments	314,009	9,654	323,663
Movements in the year			
Purchases at cost	200,582	752	201,334
Sales - proceeds	(204,982)	(238)	(205,220)
Sales - gains/(losses) in the year	20,229	(107)	20,122
Transfer to listed from other - at cost	3,678	(3,678)	–
Transfer to listed from other - fair value adjustment	449	(449)	–
Movement in investment holding (losses)/gains in the year	(38,109)	141	(37,968)
Closing fair value of investments	295,856	6,075	301,931
Closing book cost	340,028	12,057	352,085
Closing investment holding losses	(44,172)	(5,982)	(50,154)
Closing fair value of investments	295,856	6,075	301,931

	2011 £'000	2010 £'000
(Losses)/gains on investments designated at fair value through profit or loss in the year		
Gains on sales of investments in the year	20,122	23,195
Investment holding losses in the year	(37,968)	(19,582)
	(17,846)	3,613

	2011 £'000	2010 £'000
(Losses)/gains on investments are shown net of investment transactions costs as shown below:		
Purchases	969	821
Sales	336	204
	1,305	1,025

Notes to the Financial Statements

10. DERIVATIVE INSTRUMENTS	2011 £'000	2010 £'000
Net losses on derivative instruments held at fair value through profit or loss		
Options and short CFDs:		
Net realised gains on options bought	207	1,934
Net realised gains/(losses) on options sold	896	(256)
Movement on investment holding losses on options	(537)	(390)
Realised gains on short CFD positions closed	2,612	1,292
Movement on investment holding gains/(losses) on short CFDs	1,969	(2,753)
	5,147	(173)
Long CFDs:		
Realised losses on long CFD positions closed	(4,288)	(2,424)
Movement on investment holding losses on long CFDs	(2,354)	(2,622)
	(6,642)	(5,046)
Total net losses	(1,495)	(5,219)

	2011		2010	
	fair value £'000	exposure £'000	fair value £'000	exposure £'000
At the year end the Company held the following derivative instruments				
Long CFDs	(1,669)	20,351	685	35,815
Short CFDs	(623)	(15,731)	(2,592)	(16,610)
Put options	(1,034)	(8,032)	–	(13,717)
Call options	(2)	(127)	(278)	(14,561)
	(3,328)	(3,539)	(2,185)	(9,073)

In the case of options, only their fair value has been recognised in the exposure column in the Forty Largest Investments on pages 9 and 10.

Fair value of derivatives recognised in the Balance Sheet

	2011 fair value £'000	2010 fair value £'000
Derivative assets held at fair value through profit or loss	1,553	1,995
Derivative liabilities held at fair value through profit or loss	(4,881)	(4,180)
	(3,328)	(2,185)

Notes to the Financial Statements

11. DEBTORS

	2011 £'000	2010 £'000
Securities sold for future settlement	1,624	1,366
Scrip dividends accrued	-	528
Accrued income	1,436	457
Overseas taxation recoverable	4	41
Other debtors	13	59
	3,077	2,451

12. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Securities purchased for future settlement	185	2,743
Security charges on investments	5	2
Other creditors	2,044	1,036
	2,234	3,781

13. SHARE CAPITAL

	2011 Shares	2011 £'000	2010 Shares	2010 £'000
Issued, allotted and fully paid:				
Ordinary shares of 25 pence each				
Beginning of the year	56,938,896	14,234	56,938,896	14,234
Repurchase of ordinary shares	(410,000)	(103)	–	–
End of the year	56,528,896	14,131	56,938,896	14,234

14. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per ordinary share is based on net assets of £312,521,000 (2010: £333,783,000) and on 56,528,896 (2010: 56,938,896) ordinary shares, being the number of ordinary shares in issue at the year end.

	2011 £'000	2010 £'000
15. RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Net (loss)/return before finance costs and taxation	(13,163)	5,037
Capital loss for the year	19,408	1,723
Net revenue return before finance costs and taxation	6,245	6,760
Scrip dividends	(5,499)	(5,851)
(Increase)/decrease in other debtors	(933)	3,370
Increase/(decrease) in other creditors	1,008	(2,683)
Overseas taxation suffered	(3)	(80)
Net cash inflow from operating activities	818	1,516

	2011 £'000	2010 £'000
16. RECONCILIATION OF NET CASH MOVEMENTS TO MOVEMENT IN NET FUNDS		
Net funds/(debt) at the beginning of the year	11,165	(18,913)
Net cash (outflow)/inflow	(3,438)	3,073
Unsecured loan repaid	–	27,000
Foreign exchange movement on other net assets	(11)	5
Change in net funds	(3,449)	30,078
Net funds at the end of the year	7,716	11,165

Notes to the Financial Statements

17. 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 on pages 21 and 22. This Note is incorporated in accordance with 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
- Cash, liquid resources and short term debtors and creditors that arise from its operations
- Derivative instruments which comprise CFDs and options on listed stocks and equity indices

The risks identified by FRS 29 arising from the Company's financial instruments are market price risk (which comprises other price risk, interest rate risk and foreign currency risk), liquidity risk, counterparty risk and credit risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

MARKET PRICE RISK

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. Other price risks arising from derivative positions, mainly due to the underlying exposures, are estimated using Value at Risk and Stress Tests as set out in the Company's Derivative Risk Measurement and Management Document.

Interest rate risk

The Company finances its operations through share capital raised. In addition, the Company has gearing through the use of derivative instruments. The Board imposes limits to ensure gearing levels are appropriate to market conditions. The Company is exposed to a financial risk arising as a result of any increases in interest rates associated with the funding of the derivative instruments.

Interest rate risk profile of financial assets and liabilities

The analysis below summarises the extent to which the Company's assets and liabilities are affected by changes in interest rates.

	2011 cash flow interest rate risk £'000	2010 cash flow interest rate risk £'000
Derivative assets	1,553	1,995
Cash at bank	7,716	11,165
Total interest bearing financial assets	9,269	13,160
Derivative liabilities	(4,881)	(4,180)
Total interest bearing financial liabilities	(4,881)	(4,180)
Total interest bearing net financial assets	4,388	8,980

17. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

The Company's net return on ordinary activities and 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 rates affecting the value of investments and derivative instruments
- Movements in rates affecting short term timing differences
- Movements in rates affecting the income received

The Company does not carry out currency speculation. However, as a sterling based fund, investments can be made in stocks in overseas currencies and the Portfolio Manager can reduce currency exposure through the use of CFDs.

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 at fair value, the fair value of the underlying securities within long CFDs, the exposure value of put options, short term debtors and cash. The currency cash flow profile, including the derivative exposures, of these financial assets is shown below.

			2011		
	investments designated at fair value through profit or loss £'000	exposure to derivative instruments £'000	short term debtors £'000	cash * £'000	total £'000
UK sterling	282,822	-	3,076	13,073	298,971
Other currencies	19,109	20,351	1	2	39,463
	301,931	20,351	3,077	13,075	338,434

* Cash includes cash at bank and amounts held at futures clearing houses and brokers

			2010		
	investments designated at fair value through profit or loss £'000	exposure to derivative instruments £'000	short term debtors £'000	cash * £'000	total £'000
UK sterling	316,209	12,786	2,149	13,630	344,774
Other currencies	7,454	23,029	302	5	30,790
	323,663	35,815	2,451	13,635	375,564

* Cash includes cash at bank and amounts held at futures clearing houses and brokers

Notes to the Financial Statements

17. FINANCIAL INSTRUMENTS (continued)

– Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital, reserves and gearing via the use of derivative instruments.

The Company's financial liabilities comprise the fair value of the securities underlying the short CFDs, the exposure value of call options and its other short term creditors.

The currency cash flow profile of these financial liabilities, including derivative liabilities, is shown below.

	2011 exposure to derivative instruments £'000	2011 short term creditors £'000	2011 total £'000
UK sterling	14,502	2,135	16,637
Other currencies	9,388	99	9,487
	23,890	2,234	26,124

	2010 exposure to derivative instruments £'000	2010 short term creditors £'000	2010 total £'000
UK sterling	38,002	3,779	41,781
Other currencies	6,886	2	6,888
	44,888	3,781	48,669

LIQUIDITY RISK

The Company's assets comprise readily realisable securities, 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

Certain of the derivative instruments in which the Company may invest are not traded on an exchange but will instead be traded between counterparties based on contractual relationships, under the terms outlined in the International Swap Dealers Association's (ISDA) market standard derivative legal documentation. As a result the Company is subject to the risk that a counterparty may not perform its obligations under the related contracts.

In accordance with the risk management process which the Manager employs to oversee and manage derivative exposures, the Manager will seek to minimise such risk by only entering into transactions with counterparties that it believes to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk through the use of internal and external credit agency ratings and evaluates financial derivative instrument credit risk exposure.

For Over the Counter (OTC) derivative transactions collateral is used to reduce the credit risk exposure for both parties to the transaction. Collateral is managed and monitored on a daily basis for all relevant transactions and collateral received from the derivative counterparty will be held by the Company's Custodian.

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 and limits are set on the amount that may be due from any one broker. All security transactions are through brokers that 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 and outstanding securities transactions and derivative instruments at fair value.

17. FINANCIAL INSTRUMENTS (continued)

DERIVATIVE INSTRUMENTS RISK

The risks and risk management processes which result from the use of derivative instruments, are set out in a documented "Derivative Risk Measurement and Management Document", details of which can be seen in the other risk categories disclosed on pages 48 to 50.

As set out in the documented Derivative Instrument Charter, the derivative instruments are used by the Manager for the following purposes:

- To gain unfunded long exposure to equity markets, sectors or single stocks. "Unfunded" exposure is exposure gained without an initial flow of capital;
- To hedge equity market risk via derivatives with the intention of at least partially mitigating losses in the exposures in the Company's portfolio as a result of falls in the equity market;
- To enhance portfolio total return by writing short call options ("covered call writing") and the selected use of other option strategies; and
- To position "short" exposures in the Company's portfolio. These uncovered exposures benefit from falls in the prices of shares which the Portfolio Manager believes to be over valued. These positions, therefore, distinguish themselves from other short exposures held for hedging purposes since they are expected to add risk to the portfolio.

The risk and performance contribution of these instruments to the Company's portfolio is overseen by a specialist derivatives 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. Derivative positions are subject to daily monitoring.

RISK SENSITIVITY ANALYSIS

Other price risk sensitivity analysis

Changes in market prices, other than those arising from interest rate risk or foreign currency risk, may also affect the value of the Company's net assets. Details of how the Board sets risk parameters and performance objectives can be found on pages 21 and 22 of the Directors' Report.

An increase of 10% in the fair value of the investments at 31 August 2011 would have increased the Company's net return on ordinary activities and net assets by £30,193,000 (2010: £32,366,000). A decrease of 10% in the fair value of investments would have had an equal and opposite effect.

Interest rate risk sensitivity analysis

At 31 August 2011, if interest rates had increased by 0.5% the Company's net return on ordinary activities and net assets would have increased by £39,000 (2010: £37,000). A decrease in the interest rates by 0.5% would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

At 31 August 2011, if UK sterling had strengthened by 10% against the foreign currency exposures, with all other variables held constant, the Company's net return on ordinary activities and net assets would have decreased by £2,725,000 (2010: £577,000). If UK sterling has weakened by 10% against the foreign currency exposures, with all other variables held constant, the Company's net return on ordinary activities and net assets would have increased by £3,331,000 (2010: £705,000).

DERIVATIVE INSTRUMENTS EXPOSURE RISK SENSITIVITY ANALYSIS

CFDs

The Company contracts in CFDs to gain long and short exposure to the share prices of individual companies. A 10% rise in the price of securities underlying the CFDs at 31 August 2011 would have resulted in an increase of £462,000 (2010: £1,921,000) in the Company's net return on ordinary activities and net assets. A fall of 10% would have had an equal but opposite effect.

OPTIONS

The Company writes call options on selected underlying equity positions, receiving a premium, but obligating it to sell the physical stock at a fixed price. Using the deltas of the options at 31 August 2011, where an option's delta is a ratio that compares the change in the price of the underlying equity to the corresponding change in the price of the option, a 10% rise in the price of the underlying equities would have resulted in an increase of £13,000 (2010: decrease £88,000) in the Company's net return on ordinary activities and net assets. A fall of 10% would have had a similar but opposite effect.

The Company also writes put options on selected underlying equity positions, receiving a premium, but obligating it to purchase the physical stock at a fixed price. Using the deltas of the options at 31 August 2011, where an option's delta is a ratio that compares the change in the price of the underlying equity to the corresponding change in the price of the option, a 10% rise in the price of the underlying equities would have resulted in a decrease of £803,000 (2010: increase £287,000) in the Company's net return on ordinary activities and net assets. A fall of 10% would have had a similar but opposite effect.

For details of the Company's derivative instruments exposure see Note 10 on page 45.

Notes to the Financial Statements

17. FINANCIAL INSTRUMENTS (continued)

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

As explained in Note 1(g) on page 39, investments are shown at fair value which is bid or last market price. Financial assets and liabilities are stated in the Balance Sheet at values which are equivalent 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 the Accounting Policies Notes 1(g) and 1(h) on pages 39 and 40. All investments held by the Company as at 31 August 2011 are considered to fall within Level 1, with the exception of £3,328,000 (2010: £2,185,000) of net derivative liabilities which fall within Level 2, and £411,000 (2010: £86,000) of unlisted investments which fall within Level 3.

CAPITAL MANAGEMENT

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its capital and reserves and is disclosed in the Balance Sheet on page 36 and is managed in accordance with its investment policy in pursuit of its investment objective, both of which are detailed on pages 19 and 20 of the Directors' Report. The principal risks and their management are disclosed on pages 21 and 22.

18. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities or capital commitments as at 31 August 2011 (2010: none).

19. RELATED PARTY TRANSACTIONS

The Directors have complied with the provisions of Financial Reporting Standard 8 "Related Party Disclosures", which require 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 pages 24 and 25. Fees paid to the Directors are disclosed in the Directors' Remuneration Report on page 33.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at 25 Cannon Street, London EC4M 5TA on 15 December 2011 at 11.00am for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and financial statements for the year ended 31 August 2011.
2. To approve a final dividend.
3. To re-elect Ms Lynn Ruddick as a Director.
4. To re-elect Mr Ben Thomson as a Director.
5. To re-elect Mrs Sharon Brown as a Director.
6. To re-elect Mr Douglas Kinloch Anderson as a Director.
7. To re-elect Mr Andrew Irvine as a Director.
8. To re-elect Ms Nicky McCabe as a Director.
9. To approve the Directors' Remuneration Report for the year ended 31 August 2011.
10. 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.
11. To authorise the Directors to determine the Auditor's remuneration.

SPECIAL BUSINESS

Resolutions 12 and 13 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 10% of the number of ordinary shares of the Company in issue on 4 November 2011. 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 12 as an ordinary resolution and Resolution 13 as a special resolution:

12. 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 £1,405,472 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 4 November 2011) 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.

13. THAT, subject to the passing of Resolution 12 set out above, the Directors be and they are hereby authorised, pursuant to Sections 570-573 of the Act to allot equity securities (as defined in Section 560 of the Act) pursuant to the authority given by the said Resolution 12 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); and

   b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £1,405,472 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 4 November 2011); 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 14 is a special resolution which, if approved, will renew the Company's authority to purchase up to 14.99% of the number of ordinary shares in issue on 4 November 2011 for cancellation. Purchases of ordinary shares will be 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 per share, thereby resulting in an increased net asset value per share.

14. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 693 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:
   a) the maximum number of shares hereby authorised to be purchased shall be 8,427,212;

Notice of Meeting

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.

By order of the Board
FIL Investments International
Secretary
11 November 2011

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

Notes to Notice of Meeting

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 11.00am on 13 December 2011. 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, P O Box 25, 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 11.00am on 13 December 2011. 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 11.00am on 13 December 2011.

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 11.00am on 13 December 2011.

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 paragraph 1 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 3 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 13 December 2011. 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 4 November 2011 (the latest practicable date prior to the publication of this document) the Company's issued ordinary share capital consisted of 56,218,896 ordinary shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 4 November 2011 was 56,218,896.

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 that they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.

Notes to Notice of 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 annual reports 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 Sections 338 and 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 1 November 2011, 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 Special 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 Special 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 £10,680 for the 2011/2012 tax year. The full amount maybe 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 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 – The standard initial charge for the Fidelity ISA is 3.5% but if you download the online application form you will pay just 1.25% initial charge. The initial charge for investments through a Financial Adviser will be up to 3.5%. 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 0.875% 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 Special 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 Special 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 Fidelity. Please note this offer does not apply to Fidelity's 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 Special Values PLC. The minimum investment is £1,000 as a lump sum, £250 as a top-up or £50 a month through in 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 need 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 an initial charge of up to 3%.

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 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 Special 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 8 am and 4.30 pm 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 alive 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, regardless of how 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 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

Investing in Fidelity Special Values PLC

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 Special 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, Block C, Western House, Lynchwood Business Park, Peterborough, PE2 6BP.
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 on page 57, 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 8.30 am – 5.30 pm 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 Special 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 Special Values PLC appears daily in The Financial Times. Price and performance information is also available at 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 Special 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 - Saturday.

Alternatively, you may like to visit the Fidelity London Investor Centre at 25 Cannon Street, London near 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 BNP Paribas Securities Services and shares will be held in the name of Puddle Dock 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.

Issued by Fidelity Special Values PLC.

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 other more 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 already have been acted upon by Fidelity.

The contents of websites referred to in this document do not form part of the annual report.

Glossary of Terms

BENCHMARK
FTSE All-Share Index against which the performance of the Company is measured

CAPITAL GAINS TAX (CGT)
Capital gains tax is 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 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 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

CORPORATION TAX
The tax the Company may have to pay on its profits for a year. 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 is 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

EXPOSURE
The total of fixed asset of investments, futures and options at fair value plus the fair value of the underlying securities within the Contracts For Difference

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

FUTURE OR FUTURE CONTRACT
An agreement to buy or sell a fixed amount of an asset at a fixed future date and a fixed price

GEARING OR GEARING EXPOSURE
Gearing or gearing exposure describes the level of a Company's debt 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. Borrowing 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 borrowings the 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 RATIO
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 (gearing ratio is stated as 108%). 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. 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

OPTIONS
Options (call or put) are used to gain or reduce exposure to the underlying asset on a conditional basis, for example, the purchase of a call option provides exposure to the upside potential of an underlying stock, with the downside risk being limited to the premium paid

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

Glossary of Terms

PREMIUM
If the share price of the Company is higher then the net asset value per share, the Company is 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:

Income 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 capital and income returns in the period. The net asset value total return reflects capital changes in the net asset value and dividends paid in the period

SHARE REPURCHASES
An increasingly popular way for investment trust companies to return cash to their shareholders is through offering to repurchase a proportion of shares currently held. Companies seek the permission of shareholders to do so at their annual general meetings allowing them to repurchase a proportion of their total shares (up to 15%). This process is also used to reduce the discount to net asset value, by reducing the number of shares in issue and thereby increasing the net asset value per share for remaining shareholders

TOTAL EXPENSE RATIO (TER)
The total expense ratio represents the total expenses (excluding interest) incurred by the Company as a percentage of average shareholders' funds

TOTAL RETURN
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

BOILER ROOM SCAMS

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority ("FSA") reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you receive any unsolicited investment advice:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting **www.fsa.gov.uk/register**
- Report the matter to the FSA either by calling 0845 606 1234 or visiting **www.moneymadeclear.fsa.gov.uk**
- If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at

www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.html

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website

www.moneymadeclear.fsa.gov.uk

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