

Fidelity Special Values PLC

Annual Report For the year ended 31 August 2016



FidelityTM
INTERNATIONAL

Contents

Strategy

- 1 Investment Objective and Financial Highlights
- 2 Chairman's Statement
- 4 Portfolio Manager's Review
- 6 Strategic Report
- 10 Portfolio Listing
- 15 Distribution of the Portfolio
- 18 Ten Year Record
- 19 Summary of Performance Charts
- 21 Attribution Analysis

Governance

- 22 Board of Directors
- 23 Directors' Report
- 27 Corporate Governance Statement
- 32 Directors' Remuneration Report
- 35 Statement of Directors' Responsibilities
- 36 Report of the Audit Committee

Financial

- 38 Independent Auditor's Report
- 43 Income Statement
- 44 Balance Sheet
- 45 Statement of Changes in Equity
- 46 Notes to the Financial Statements
- 64 Financial Calendar

Information for Shareholders

- 65 Notice of Meeting
- 68 Shareholder Information
- 70 Alternative Investment Fund Manager's Disclosure
- 71 Glossary of Terms

"Over the past few years, the Board has worked to develop Fidelity Special Values PLC as an actively managed, contrarian investment trust which is appealing to both its existing and potential investors..... Having introduced Alex Wright as Portfolio Manager in 2012, the ability of the Company to invest across the market, in terms of size (market capitalisation) of underlying investments, while focusing particularly on undervalued small and medium companies, has proved advantageous. We believe the Company is well positioned to be the investment of choice for those seeking exposure to UK listed companies but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns."

Andy Irvine, Chairman

**INVESTING IN
COMPANIES WITH
UNRECOGNISED
POTENTIAL**

LET'S TALK HOW.



Investment Objective and Financial Highlights

The investment objective of Fidelity Special Values PLC is to achieve long term capital growth predominantly through investment in UK listed companies.

Year to 31 August 2016

Net Asset Value ("NAV")
per Share total return¹

+9.9%

2015: +7.3%

Share Price total return¹

+1.1%

2015: +12.4%

FTSE All-Share Index
(Benchmark Index)

+11.7%

2015: -2.3%

Total Dividends

3.70p

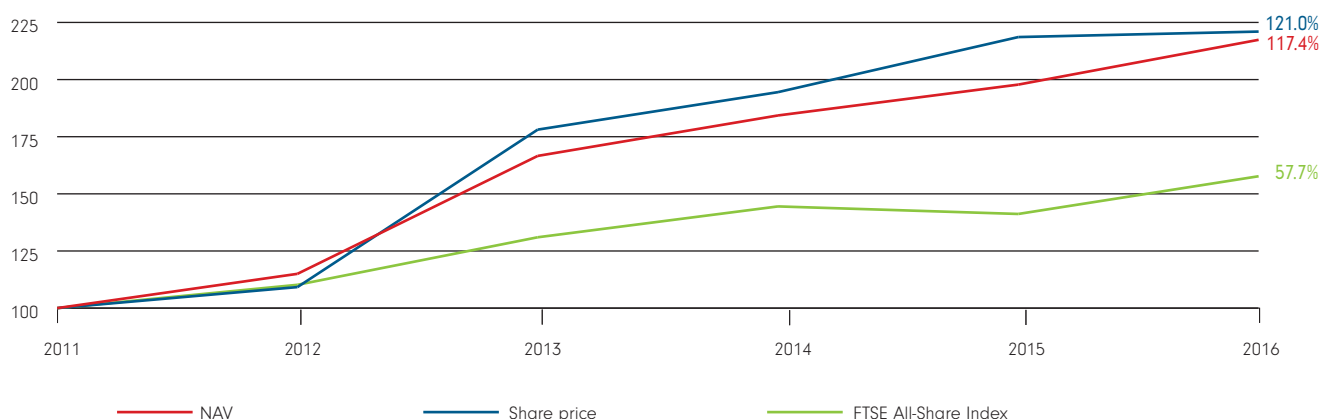
2015: 3.35p

¹ Includes reinvested income

	2016	2015
Assets at 31 August		
Shareholders' funds	£578.3m	£537.3m
Net Asset Value ("NAV") per share	217.94p	201.61p
Dividends for the year to 31 August		
Final dividend proposed per ordinary share	2.70p	2.35p
Interim dividend paid per ordinary share	1.00p	1.00p
Total dividends for the year	3.70p	3.35p
Share price and discount data for the year ended 31 August		
Share price at the year end	196.25p	197.50p
Share price year high	203.00p	213.30p
Share price year low	170.00p	161.30p
Discount at year end	(10.0%)	(2.0%)
Premium year high	1.3%	2.3%
Discount year high	(13.3%)	(10.6%)
Ongoing charges for the year ended 31 August¹	1.10%	1.10%

¹ Ongoing charges (excluding finance costs and taxation) expressed as a percentage of the average net asset values for the year (prepared in accordance with methodology recommended by the Association of Investment Companies). A definition of ongoing charges can be found in the Glossary of Terms on page 72.

Comparison of NAV and Share Price Total Return against the Benchmark Index for the 5 year period to 31 August 2016



Prices rebased to 100

Sources: Fidelity and Datastream

Past performance is not a guide to future returns

STRATEGY

GOVERNANCE

FINANCIAL

INFORMATION FOR SHAREHOLDERS

Chairman's Statement



I have pleasure in presenting the Annual Report of Fidelity Special Values PLC for the year ended 31 August 2016, my first as Chairman of the Company.

Andy Irvine, Chairman

Over the past few years, the Board has worked to develop Fidelity Special Values PLC as an actively managed, contrarian investment trust which is appealing to both its existing and potential investors. As Chairman, I intend to continue to lead the Company in this direction.

Having introduced Alex Wright as Portfolio Manager in 2012, the ability of the Company to invest across the market, in terms of size (market capitalisation) of underlying investments, while focusing particularly on undervalued small and medium companies, has proved advantageous. We believe the Company is well positioned to be the investment of choice for those seeking exposure to UK listed companies but with the benefit of investing up to 20% of the portfolio in listed companies on overseas exchanges in order to enhance Shareholder returns. At the date of this report, 15.9% of the Company's portfolio was held in overseas securities.

Performance

The net asset value ("NAV") of the Company increased by 9.9% over the year but slightly lagged the 11.7% return of the Benchmark Index.

The underperformance of the NAV against the Index was caused by some of the Company's financial sector positions falling due to unfavourable market sentiment around banking stocks in particular. Banks were especially hard hit by the fallout of the Brexit vote, and the wider market sell-off seen in the days immediately following the vote also had an impact on selected holdings elsewhere in the portfolio. Nevertheless, Alex's commendable stock selection abilities have generated strong returns in other areas of the portfolio, while his ability to avoid some of the more troubled areas has also proved supportive of overall performance. Despite the ongoing uncertainty created by a variety of macroeconomic influences and political events, bottom-up stock selection continued to be the driving force behind the portfolio's strong absolute return, demonstrating the value of fundamental research and a contrarian approach.

The contrarian nature of the Company's investment selection means that the Board does not expect a consistent outperformance of the Index every single year, though we do believe that the portfolio has the potential to outperform significantly over the longer term as illustrated by the Company's three and five year performance. For the three years, performance of the NAV and share price was +30.5% and +24.1% respectively, both ahead of the Benchmark Index return of +20.4%. For the five years, the NAV and share price performance was +117.4% and

+121.0%, significantly ahead of the Benchmark Index return of +57.7% (all numbers on a total return basis). As ever, the Board encourages Shareholders to take a similarly long term view of their investment in the Company's shares.

The Portfolio Manager's Review on pages 4 and 5 covers performance and related factors in greater detail.

Outlook

The year under review saw some volatility in asset prices, but the weakness in sterling post the Brexit vote and the Bank of England's decision to cut interest rates and further expand monetary easing has provided strong support to the market towards the end of the period. Alex continues to closely observe the emerging trends in the UK economy, particularly the levels of confidence among consumers and companies. These insights will form the basis of his stock selection. The valuation of the market today is neither too expensive nor very cheap compared to history, and with muted growth prospects, we will need strong stockpicking and risk management to drive the Company's NAV. We feel that the strategy in place is well aligned with the long term interests of the Company's Shareholders.

OTHER MATTERS

Discount, Share Repurchases and Issues

Under the Company's discount management policy, the Board seeks to maintain the discount in single digits in normal market conditions and will, subject to market conditions, repurchase ordinary shares with the objective of stabilising the share price discount based on the cum income NAV within a single digit range.

The level of discount has widened from 2.0% at the start of the reporting year to 10.0% as at 31 August 2016. Post the Brexit vote, there was a general widening of discounts in the investment trust sector and the Company's discount reached a level of 13.3%. Although these were exceptional times, the Board stepped in to carry out some share repurchases. During the year, the Company's shares traded within a range of 13.3% discount to 1.3% premium. The Board continues to monitor the discount closely and take action where it feels it will be effective.

During the reporting year, the Company repurchased 1,175,000 ordinary shares into Treasury. Since the end of the reporting period and as at the date of this report, the Company has repurchased a further 725,000 shares into Treasury.

Gearing

The Board has agreed with the Portfolio Manager that if he is able to find attractive opportunities in the market, then the Company's gearing should be allowed to rise, and stay geared, as long as the opportunities remain. Net gearing (see Glossary of Terms) was 7.9% as at 31 August 2016. Combined with Alex Wright's contrarian and value-focused investment philosophy, and making good use of the Company's structural advantages over its open-ended

counterparts, this should continue to add value for Shareholders over the long term.

Dividend

The Board's dividend policy is to pay dividends twice yearly in order to smooth the dividend payment throughout the year. An interim dividend of 1.00 pence per share (2015: 1.00 pence* was paid on 25 May 2016. The Board recommends a final dividend of 2.70 pence per share for the year ended 31 August 2016 for approval by Shareholders at the Annual General Meeting ("AGM") on 13 December 2016. The interim and final dividends represent a total increase of 10.4% over the 3.35 pence paid for the year ended 31 August 2015. This dividend will be payable on 19 December 2016 to Shareholders on the register at close of business on 18 November 2016 (ex-dividend date 17 November 2016).

* Restated for the five for one sub-division of shares which took place on 29 June 2015

Shareholders may choose to reinvest their dividends to purchase more shares in the Company. Details of the Dividend Reinvestment Plan are set out on page 68.

The interim dividend that the Company has paid in the last two years is less than 30% of the total dividend paid for the reporting year. We believe that Shareholders would welcome a more evenly balanced dividend and the Board has therefore determined to increase the weighting of the interim payment.

Board of Directors

In common with our practice since 2004, all Directors are subject to annual re-election and their biographical details are included on page 22 to assist Shareholders when considering their votes.

After six years as Chairman and eleven years as a Director, Lynn Ruddick stepped down from the Board on 5 July 2016 and I succeeded her as Chairman. I would like to take this opportunity to thank her on behalf of the Board, Shareholders and Fidelity for her invaluable contribution to the Company. She will be missed. At the same time, Sharon Brown was appointed as the Senior Independent Director and will also continue as Chairman of the Audit Committee.

Viability Statement

The 2014 UK Corporate Governance Code requires the Directors to report on the viability of the Company over a longer period than the twelve month period required by the Going Concern statement which is on page 23. This new statement can be found on page 9.

Continuation Vote

In accordance with the Company's Articles of Association, the Company is subject to a continuation vote every three years. The next such vote is at the AGM on 13 December 2016. The Company's performance record has been very strong since launch with a NAV increase of 1,406.9% compared to the Benchmark

Index of 384.1%. The share price has increased by 1,296.7% since launch. Although the one year NAV and share price total returns have underperformed the Benchmark Index, the 3 and 5 years performance remains well ahead of the Index. In addition, the prospects of the Company over a five year investment horizon can be found in the Viability Statement on page 9. Therefore your Board recommends that Shareholders vote in favour of the continuation vote.

Annual General Meeting: Tuesday 13 December 2016 at 11.30 am

The AGM will be held at 11.30 am on Tuesday 13 December 2016 at **Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD**. (Mansion House tube station). **Shareholders are asked to note the change of address to our usual AGM venue which is undergoing refurbishment.**

It is the most important meeting that we, the Directors of your Company, have with our Shareholders each year. Alex Wright, the Portfolio Manager, will be making a presentation to Shareholders, highlighting the achievements and challenges of the year past and the prospects for the year to come. We hope as many of you as possible are able to come and join us for this occasion.



Andy Irvine

Chairman

3 November 2016

Portfolio Manager's Review



Alex Wright (Portfolio Manager) joined Fidelity in 2001 as a research analyst and has covered a number of sectors across the market cap spectrum both in the UK as well as developed and emerging Europe. He is Portfolio Manager of Fidelity Special Values PLC and Fidelity Special Situations Fund and the co-Manager of Fidelity UK Smaller Companies Fund. He was appointed Manager of the Company's portfolio on 1 September 2012.

Introduction

The Company's NAV return of 9.9% (total return basis) for the reporting year was strong in absolute terms, although slightly behind the Benchmark Index, which returned 11.7%. The UK stock market performed strongly in 2016, especially in the post Brexit vote period, as concerns eased about the potential fallout of the referendum, and a weakening sterling exchange rate provided a benefit for many of the large international companies listed in London.

In my report, I will explore some of the main influences on the Company's performance and some of the significant changes in the portfolio over the last financial year.

UK Market and Economic Review

- The UK stock market rose over the 12 month period, as the slow expansion in the global economy continued, and central banks remained focussed on monetary 'easing'. The UK market also benefited from the fall in the sterling exchange rate.
- The UK economy has continued to advance, with GDP growing by 0.6% in the three months to the end of June, most of it coming in the run-up to the Brexit vote. However, following the UK's vote to leave the European Union ("EU"), the exchange rate has fallen and the outlook for growth in the short to medium term has weakened markedly.
- The fall in sterling is likely to put some upward pressure on inflation in the near term. At the end of July 2016, the annual rate of Consumer Price Index (CPI) stood at 0.6%, up from 0% at the end of August 2015.
- The Bank of England reduced its interest rate from 0.5% to 0.25%, a new record low and the first decrease in rates since 2009. The central bank also signalled that rates could go lower if the economy worsens. Alongside this, it announced additional measures to stimulate the UK economy, including a £100 billion scheme to force banks to pass on the low interest rate to households and businesses. It will also buy £60 billion of UK government bonds and £10 billion of corporate bonds.

The Company's financial year, which ended on 31 August 2016, was positive with regard to the NAV performance, as several of our key holdings performed well, but overall returns slightly

lagged the broader market index due in large part to the weak performance of our financials holdings which were out of favour with the market.

The start of the 12-month review period was marked by concerns over the health of the global economy. Nevertheless, UK equities rallied in the fourth quarter to end 2015 with small gains, as stock prices were buoyed by improved investor confidence. However, the stock market witnessed periodic bouts of volatility, particularly following the terrorist attacks in Paris, continuing geopolitical tensions and emerging market uncertainty. Steep falls in Chinese stock markets in January led to a slow start to 2016, but markets rallied thereafter as positive monetary policy announcements from leading central banks allayed concerns about global economic growth to some extent. The European Central Bank's aggressive plans to ramp up stimulus measures in the eurozone and the Fed's cautious stance on further interest rate increases were well received.

The build-up to the Brexit referendum and its aftermath dominated investor sentiment during the second quarter of 2016. Although victory for the Leave camp led to an immediate sharp fall in stock prices, the market recovered quickly as the political situation stabilised and the Bank of England lowered interest rates.

Against this macro-economic and political backdrop, investors continued to favour assets with perceived safety, leading to rising valuations in 'defensive' categories such as tobacco, staples and utilities. Sectors with greater uncertainty and negative exposure to falling interest rates remained unloved and cheap.

Portfolio Review

Although our bias towards smaller (more domestic) companies and value (out of favour) stocks has created a challenging environment for performance, we have had some very strong contributions from stock selection which has allowed us to deliver another year of strong absolute returns not far short of the overall market.

We have seen strong performance from our positions in US technology large-caps Hewlett Packard Enterprise and HP Inc. Following the company's split earlier in the year, the stocks have begun to recover from very low starting valuations. Positive outlook for earnings growth was another major driver of fund returns during the review period. Notably, the holdings in financial services company Burford Capital and repair and insurance company HomeServe rose, supported by strong increases in their annual profits.

Merger and acquisition ("M&A") activity also continued to provide significant support to fund performance. For example, business outsourcer Xchanging was a notable contributor as its shares rose after the company said its board intends to unanimously recommend the cash offer from technology consulting company Computer Sciences Corporation. This trend has sustained even post-Brexit as overseas acquirers continue to look at potential

M&A opportunities in the UK market. A combination of lower prices and weaker sterling should drive the number of takeouts higher. Since the referendum result, the portfolio has already seen a bid announced on Wireless Group at an 80% premium. Our strategy has historically benefited from M&A activity and I would expect this to continue.

On the downside, holdings in banking stocks declined following the Brexit vote. Investors were concerned that the UK's exit from the EU would result in a slowdown in loan growth and put further pressure on interest margins. Bank of Ireland and Lloyds Banking Group were among the key detractors from performance. Despite a weak growth outlook, banking balance sheets are generally strong and valuations are very low. We remain invested in the sector, although I have trimmed some positions to reflect the more challenging economic environment. The sector has not had a good run of late but we continue to believe that the stocks we own in this category are materially misunderstood by the market. Elsewhere, the allocation to real estate agency group Countrywide declined due to concerns over the implications of the UK's exit from the EU and a slowdown in housing delivery, although latest housing market data has shown signs of stabilisation.

As many investors have sought the safety of large-cap defensive names, we have been finding attractive ideas in the cyclical sectors of the UK market. We used this period to add to holdings in CRH and Wolseley. We also bought a new position in insulation group SIG. There are also several examples of contrarian small-caps that provide the Company with geographically diversified sales exposure. These include emerging market consumer lending company International Personal Finance and Photo-Me. The former has a positive growth outlook that is not reflected in the distressed valuation of its shares. Photo-Me is an operator of photobooths that is expanding into laundry machines and is an extremely cash generative business.

With the level of background uncertainty on the rise, the attraction of equity 'safe havens' has proved irresistible for many investors. This is intuitively sensible and understandable behaviour during times of stress. We have spoken before about how staples and tobacco companies trade on high valuations and have high margins, and so although in the short term, behavioural factors may drive them higher, the vast majority remain unsuitable investments for our investment process, which seeks to find positive change in unloved companies.

Outlook

I invest in companies when I believe they are undergoing a positive change, which is not reflected by the share price. These changes are not contingent on the UK's membership of the EU. If the UK economy is able to find a stable footing, and the global recovery continues then many stocks that are currently being sold aggressively will appear significantly undervalued, providing a positive outlook for future performance.

Alex Wright

Portfolio Manager

3 November 2016



Fidelity International won the Money Observer's Premier Investment Trust Group of the year.

Strategic Report

The Directors have pleasure in presenting the Strategic Report of the Company. The Chairman's Statement and the Portfolio Manager's Review form part of the Strategic Report.

Business and Status

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

The Company is registered as an investment company under Section 833 of the Companies Act 2006 and its ordinary shares are listed and traded on the London Stock Exchange. It is not a close company and has no employees.

Objective

The Company's objective is to achieve long term capital growth predominantly through investment in UK listed companies.

Strategy

In order to achieve this objective, the Company operates as an investment company which has an actively managed portfolio of special situation investments, consisting primarily of UK listed companies. As an investment company, it is able to gear the portfolio and the Board takes the view that long term returns for Shareholders can be enhanced by the use of gearing in a carefully considered and monitored way. The level of gearing is considered by the Board at each of its meetings.

As part of the strategy, the Board has delegated the management of the investment portfolio and certain other services. The Portfolio Manager aims to achieve a total return on the Company's assets over the longer term in excess of that achievable by the FTSE All-Share Index. The stock selection approach adopted by the Portfolio Manager is considered to be well-suited to achieving this objective.

Investment Policy

The Company seeks to meet its investment objective through investment in a diversified portfolio of securities issued by or related to predominantly UK listed companies.

The Portfolio Manager has a contrarian style which focuses on significant valuation anomalies in stocks which are out of favour with other investors, yet show potential for change. The Portfolio Manager believes these opportunities exist across the market capitalisation spectrum, and the investment approach is flexible, with positions in large, medium and smaller sized companies. The proportions in each size category may vary over time, as investment opportunities are selected on a bottom up basis.

Investments typically have the following characteristics:

- Unrecognised potential for positive change: The Portfolio Manager wants to see evidence of the company embarking upon a period of positive change. Once this change begins to

be recognised by the market, there is potential for substantial upside.

- Limited downside risk: The Portfolio Manager invests in companies where market expectations are low. They will have some asset or characteristic that should prevent significant falls in the share price.

The Benchmark of the Company against which performance is measured is the FTSE All-Share Index.

The Company may invest directly in the shares of companies or indirectly through equity-related instruments (such as derivative contracts, warrants or convertible bonds) and in debt instruments. The Company may also invest in unquoted securities, subject to the investment restrictions set out on page 7.

Derivatives

The Company may utilise derivative instruments, including index-linked notes, CFDs, covered options and other equity-related derivative instruments as a tool to meet the investment objectives of the Company.

Derivatives usage will focus on, but not be limited to the following investment strategies:

- 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 normally at lower financing costs.
- 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; and
- by taking short exposures on stocks that the Portfolio Manager considers to be over-valued.

The Company will not undertake any naked shorts.

Gearing

The Company may use gearing to enhance long term capital growth. The maximum level of gross gearing (defined in the Glossary of Terms) will be 140%. Within this limit the Portfolio Manager has the discretion to use a range of instruments for gearing, such as debt and CFDs, depending on the relative cost and availability of those instruments. It is the current intention of the Board that, in normal market circumstances, the Portfolio Manager will maintain net gearing (defined in the Glossary of Terms) in the range of 100% to 120%.

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.

Investment Restrictions

The Company will invest and manage its assets with an objective of spreading risk through the following investment restrictions:

- No single investment (excluding cash and cash equivalents) nor the aggregate investment in any one company shall represent more than 10% of the Company's portfolio, measured as at the time of investment;
- No more than 20% of the portfolio will be invested in companies listed on overseas exchanges;
- The Company will not invest more than 5% of its gross assets in unquoted securities; and
- The Company will not invest more than 15% of its gross assets at the time of investment in listed investment companies (including listed investment trusts), including no more than 10% at the time of investment, of its gross assets in funds that do not have stated policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

Dividend Policy

The portfolio is managed actively in 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. In order to continue to qualify as an investment company, the Company is required by Section 1159 of the Corporation Tax Act 2010 to distribute sufficient net income so that it retains no more than 15% of its income in any reporting year.

Investment Management Philosophy, Style and Focus

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's analysts evaluate companies, meet their management and workforce and interpret the effects of international and local events. This first hand research is fundamental to Fidelity's ability to seek the success stories of the future. The Portfolio Manager works closely with the Fidelity analyst team and also has access to a wide range of research produced by third parties.

Performance, Results and Dividends

The Company's performance for the year ended 31 August 2016, including a summary of the year's activities and indications of trends and factors that may impact the future performance of the Company are included in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 5. The Portfolio Listing, the Distribution of the Portfolio, the Ten Year Record, the Summary of Performance Charts and the Attribution Analysis are set out on pages 10 to 21. The Board recognises that investing in equities is a long term process and the Company's returns will vary from year to year.

The Company's results are set out in the Income Statement on page 43. The return per share was 19.57 pence of which the revenue return was 4.15 pence.

The Directors recommend that a final dividend of 2.70 pence per share be paid on 19 December 2016 to Shareholders who appear on the register as at the close of business on 18 November 2016 (ex-dividend date 17 November 2016). This is in addition to the interim dividend of 1.00 pence paid on 25 May 2016.

Key Performance Indicators ("KPIs")

Given the Company's objective and strategy, the Board has identified the following KPIs against which performance can be compared and which are comparable to those reported by other investment companies.

Shareholder Total Returns

	1 year (%)	3 years (%)	5 years (%)
Share price total return			
Fidelity Special Values PLC ¹	+1.1	+24.1	+121.0
Low risk investment ²	+0.6	+1.6	+3.1
Benchmark Index ³	+11.7	+20.4	+57.7
Peer group ⁴	+2.2	+19.1	+75.8

Company Total Returns

	1 year (%)	3 years (%)	5 years (%)
Net asset value total return			
Fidelity Special Values PLC ¹	+9.9	+30.5	+117.4
Benchmark Index ³	+11.7	+20.4	+57.7
Peer group ⁴	+5.7	+22.0	+73.0

Discount

	2016 (%)	2013 (%)	2011 (%)
Discount as at 31 August			
Fidelity Special Values PLC	10.0	5.0	10.6
Peer group ⁴	8.6	6.5	9.1

Ongoing charges

	2016 (%)	2013 (%)	2011 (%)
Ongoing charges (see glossary for definition)			
Fidelity Special Values PLC	1.10	1.21	1.23

¹ Total return including net dividend reinvested.

² UK Interbank 3 month bid rate (banks or building societies).

³ FTSE All-Share Index.

⁴ AIC UK All Companies sector.

Sources: Fidelity and Datastream.

In addition to the KPIs set out above, the Board also monitor the factors contributing to investment results, as set out in the Attribution Analysis on page 21. Long term performance is also monitored and the Ten Year Record and Summary of Performance Charts on pages 18 to 20 show this information.

Strategic Report continued

Principal Risks and Uncertainties and Risk Management

As required by provision C.2.1 of the 2014 UK Corporate Governance Code the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company. The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the risk management and internal control process, identifies the key risks that the Company faces. The risks identified and placed on the Company's risk matrix and graded appropriately. This process, together with the policies and

procedures for the mitigation of risks, is updated and reviewed regularly by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. The Alternative Investment Fund Manager, FIL Investment Services (UK) Limited, also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and to ensure that the Board can continue to meet its UK corporate governance obligations. The Board considers the following as the principal risks and uncertainties faced by the Company.

EXTERNAL RISKS

Principal Risks	Description and Risk Mitigation
Market Risk	<p>The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market downturns, interest rate movements, deflation/inflation, terrorism and protectionism.</p> <p>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 56 to 62 together with summaries of the policies for managing these risks. These are: market price risk (which comprises interest rate risk, foreign currency risk and other price risk); liquidity risk; counterparty risk; credit risk; and derivative instruments risk.</p> <p>Long CFDs are currently used for gearing purposes. In addition, a day-to-day overdraft facility can be used if required.</p>
Share Price Risk	<p>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 believe that volatility should be a significant risk for the long term Shareholder.</p>
Discount Control Risk	<p>During the 12 months to 31 August 2016, the discount widened as outlined in the Chairman's Statement. The Board cannot fully control the discount at which the Company's share price trades in relation 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.</p> <p>The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.</p>
Regulatory Risk	<p>The Company may be impacted by changes in legislation, taxation or regulation. These are monitored at each Board meeting and managed through active lobbying by the Manager.</p>

INTERNAL RISKS

Principal Risks	Description and Risk Mitigation
Investment Management Risk	<p>The Board relies on the Portfolio 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 Index and competitors and also considers the outlook for the market with the Portfolio 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. The Brexit vote impacted performance as outlined in the Chairman's Statement.</p>
Governance, Operational, Financial, Compliance, Administration etc Risks	<p>The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures and accounting records. Risks associated with these services are generally rated as low, although the financial consequences could be serious, including the associated reputational damage to the Company. The risk posed by external cybercrime threats is rated as significant and the Board receives regular updates on measures taken by the Manager to mitigate cyber attacks.</p>

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, issued by the Financial Reporting Council in September 2014, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long term capital growth as detailed in the investment objective on page 6. Long term is considered by the Directors to be at least five years and accordingly they believe five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

A risk to the Company's continuation is Shareholder dissatisfaction, and therefore in accordance with the Company's Articles of Association, a continuation vote is held every three years, the next one taking place at this year's Annual General Meeting.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The principal risks and uncertainties facing the Company as set out above and their potential impact;
- The future demand for the Company's shares;
- The Company's share price discount to the NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company; and
- Future income and expenditure forecasts.

The Company's performance has been strong since launch. The Board regularly reviews the investment policy and considers it to be appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Manager's compliance with the Company's investment objective, its investment strategy and asset allocation;
- The fact that the portfolio mainly comprises readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy; and
- The ongoing processes for monitoring operating costs and income which are modest in comparison to the Company's total assets

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern statement in the Directors' Report on page 23.

Board Diversity

The Board carries out any candidate search against a set of objective criteria on the basis of merit, with due regard for the benefits of diversity on the Board, including gender. As at 31 August 2016, there were two female and three male Directors on the Board.

Employee, Social, Community And Human Rights Issues

The Company has no employees, all of its Directors are non-executive and its day-to-day activities are carried out by third parties. There are therefore no disclosures to make in respect of employees.

Fidelity encourages Environmental, Social and Governance ("ESG") factors in its investment decision making process. It has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and submits an annual return detailing how it incorporates ESG into its investment analysis.

The Company has not adopted a policy on human rights as it has no employees and its operational processes are delegated.

The Company's financial reports are printed by a company which has won awards for its environmental awareness and further details of this may be found on the back cover of this report.

Greenhouse Gas Emissions

The Company has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measureable carbon footprint. FIL Investment Services (UK) Limited and FIL Investments International are registered with the Carbon Reduction Commitment Energy Efficiency Scheme administered by the Environment Agency.

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.

Corporate Engagement

The Board believes that the Company should, where appropriate, take an active interest in the affairs of the companies in which it invests and that it should exercise its voting rights at their general meetings. Unless there are any particularly controversial issues (which are then referred to the Board) it delegates the responsibility for corporate engagement and Shareholder voting to the Manager. These activities are reviewed regularly by the Manager's corporate governance team.

Future Developments

Some trends likely to affect the Company in the future are common to many investment companies together with the impact of regulatory change. The factors likely to affect the Company's future development, performance and positions are set out in the Chairman's Statement and the Portfolio Manager's Review on pages 2 to 5.

By Order of the Board

FIL Investments International

Secretary

3 November 2016

Portfolio Listing

as at 31 August 2016

The Gross Asset Exposures shown below and on pages 11 to 14 measure exposure to market price movements as a result of owning shares and derivative instruments. The Balance Sheet Value is the actual value of the portfolio. Where a contract for difference ("CFD") is held, the Balance Sheet Value reflects the profit or loss on the contract since it was opened and is based on how much the share price of the underlying share has moved.

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure		Balance Sheet Value
		£'000	% ¹	£'000
Royal Dutch Shell (shares and long CFD) An integrated oil and gas company which trades at a low valuation following several years of poor share price performance. However, the company now has a significant opportunity to increase production and reduce costs following a merger with BG. Additionally, the company should benefit from the recovery underway in oil prices occurring as a result of falling global supply.	Oil & Gas Producers	36,294	6.3	18,330
Citigroup A global bank focussed on North and South America, with a strong balance sheet that allows profits to be returned to shareholders as share buybacks. The company has opportunities to cut costs and grow market share, though the market seems to be expecting losses, with the shares trading below book value.	Banks	32,193	5.6	32,193
CRH (long CFD) A global leader in cement and aggregates which should benefit from the improving outlook for infrastructure-related construction projects across developed markets. Its margins remain below peaks from the last cycle, despite a higher market share and more favourable market structure. We believe margins and sales volumes can improve further.	Construction & Materials	31,830	5.5	4,467
Homeserve Provides home repair services and insurance across Europe and the US. This is a highly cash generative business model with significant potential to increase output. The company is in the relatively early stages of an ambitious growth phase, which could be extremely rewarding for shareholders, if sensibly managed.	Support Services	23,514	4.1	23,514
Ladbrokes A company engaged in the betting and gaming industry. Its merger with Coral offers scale, synergies, and a high quality combined management team. This deal meaningfully improves the chances of a long-term turnaround for Ladbrokes.	Travel & Leisure	23,230	4.0	23,230
Royal Mail (shares and long CFD) Royal Mail provides postal services and shareholders, following its transition to private ownership, will benefit from a multi-year cost-saving program that spans many different parts of the business. Additionally, despite its cheap shares, it is exposed to the structural growth category of parcels, where volumes will increase over time as more retail activity shifts online.	Industrial Transportation	21,788	3.8	10,885
Ultra Electronics Holdings Attractively valued defence company that has chosen to invest in R&D and acquire related businesses despite military budget declines. Synergies from acquisitions and integration have not been factored in by the market. The company is well positioned to benefit should a pick up in defence spending materialise.	Aerospace & Defence	21,370	3.7	21,370

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure		Balance
		£'000	% ¹	Sheet Value £'000
Wolseley A high quality building supplies merchant primarily exposed to strong US markets. The company has improved margins since its inclusion in the portfolio, and can continue to take advantage of cross-selling opportunities.	Support Services	21,330	3.7	21,330
Shire (long CFD) Shire stands out among global pharmaceutical stocks as one of the cheapest. In part this is due to uncertainty around the recent transformative acquisition of Baxalta, which creates a more diversified and therefore less risky business in the long run.	Pharmaceuticals & Biotechnology	20,457	3.5	3,828
Hewlett-Packard Enterprises A US IT services business which, following its de-merger last year, has conducted a large amount of corporate activity which has created a clearer and easier to understand business model.	Information Technology Services	16,443	2.8	16,443
Ten largest long exposures		248,449	43.0	175,590
Other long exposures				
HP	Computer Systems	16,424	2.8	16,424
Lloyds Banking Group (long CFD)	Banks	16,266	2.8	(2,566)
esure Group	Non-life Insurance	16,201	2.8	16,201
Livanova	Healthcare Equipment & Services	15,924	2.8	15,924
Regus	Support Services	15,615	2.7	15,615
Phoenix Group Holdings	Life Insurance	13,545	2.3	13,545
Conwert Immobilien Invest	Real Estate Investment & Services	13,231	2.3	13,231
Aviva (long CFD)	Life Insurance	12,469	2.2	628
ICAP	Financial Services	12,400	2.1	12,400
Carnival	Travel & Leisure	11,897	2.1	11,897
BT Group (long CFD)	Fixed Line Telecommunications	11,313	2.0	(1,428)
Bank of Ireland (long CFD)	Banks	11,142	1.9	(3,863)
Synthomer	Chemicals	10,722	1.9	10,722
Burford Capital	Financial Services	10,612	1.8	10,612
CLS Holdings	Real Estate Investment & Services	9,790	1.7	9,790
Electra Private Equity	Equity Investment Instruments	9,411	1.6	9,411
Cairn Homes	Household Goods & Home Construction	9,203	1.6	9,203
Alphabet	Information Technology Services	9,103	1.6	9,103
Hill & Smith Holdings	Industrial Engineering	8,362	1.4	8,362
Photo-Me International	Leisure Goods	7,770	1.3	7,770

Portfolio Listing continued

as at 31 August 2016

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure		Balance
		£'000	% ¹	Sheet Value £'000
H & T Group	Financial Services	6,754	1.2	6,754
Barclays (long CFD)	Banks	6,429	1.1	(1,073)
Bloomsbury Publishing	Media	6,024	1.0	6,024
Mandalay Resources	Mining	6,014	1.0	6,014
SIG	Support Services	6,009	1.0	6,009
UDG Healthcare (long CFD)	Food & Drug Retailers	5,931	1.0	1,679
Sherborne Investors (Guernsey)	Financial Services	5,818	1.0	5,818
Norcros	Construction & Materials	5,679	1.0	5,679
International Personal Finance	Financial Services	5,666	1.0	5,666
Spotify Technology (convertible senior notes)	Media	5,585	1.0	5,585
Wireless Group	Media	5,471	0.9	5,471
Coats Group	General Industrials	5,164	0.9	5,164
Speedy Hire	Support Services	4,956	0.9	4,956
FBD Holdings	Non-life Insurance	4,933	0.9	4,933
Summit Germany	Real Estate Investment & Services	4,593	0.8	4,593
Sports Direct International	General Retailers	4,541	0.8	4,541
Chemring Group	Aerospace & Defence	4,452	0.8	4,452
U and I Group	Real Estate Investment & Services	4,319	0.7	4,319
M P Evans Group	Food Producers	4,163	0.7	4,163
LXB Retail Properties	Real Estate Investment Trusts	4,139	0.7	4,139
Genel Energy (shares & fixed interest)	Financial Services	4,048	0.7	4,048
Vitec Group	Industrial Engineering	3,931	0.7	3,931
Pan African Resources	Mining	3,827	0.7	3,827
Findel	General Retailers	3,385	0.6	3,385
Zegona Communications	Financial Services	3,007	0.5	3,007
Next Fifteen Communications Group	Media	2,904	0.5	2,904
Faroe Petroleum	Oil & Gas Producers	2,870	0.5	2,870
TT Electronics	Electronic & Electrical Equipment	2,827	0.5	2,827
Dialight	Electronic & Electrical Equipment	2,742	0.5	2,742
Lookers	General Retailers	2,634	0.5	2,634
Amerisur Resources	Oil & Gas Producers	2,570	0.4	2,570
Central Asia Metals	Mining	2,539	0.4	2,539
Begbies Traynor Group	General Retailers	2,538	0.4	2,538
Brewin Dolphin Holdings	Financial Services	2,479	0.4	2,479
Manx Telecom	Fixed Line Telecommunications	2,404	0.4	2,404

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure		Balance
		£'000	% ¹	Sheet Value £'000
SOCO International	Oil & Gas Producers	2,212	0.4	2,212
Hargreaves Services	Industrial Transportation	2,155	0.4	2,155
Countrywide	Real Estate Investment & Services	2,104	0.4	2,104
Shanks Group	Support Services	2,038	0.4	2,038
Carpetright	General Retailers	1,997	0.3	1,997
Axa Property Trust	Real Estate Investment Trusts	1,977	0.3	1,977
DX (Group)	Transportation	1,881	0.3	1,881
McKay Securities	Real Estate Investment Trusts	1,835	0.3	1,835
Paragon Group	Financial Services	1,816	0.3	1,816
Wentworth Resource	Oil & Gas Producers	1,751	0.3	1,751
UK Mail Group	Industrial Transportation	1,658	0.3	1,658
Connect Group	Support Services	1,652	0.3	1,652
Balfour Beatty	Construction & Materials	1,642	0.3	1,642
Headlam Group	Household Goods & Home Construction	1,487	0.3	1,487
Elegant Hotels Group	Travel & Leisure	1,482	0.3	1,482
Alpargatas (long CFD)	Personal Goods	1,480	0.3	(505)
Dalata Hotel Group (long CFD)	Travel & Leisure	1,438	0.3	(18)
Marwyn Value Investors	Equity Investment Instruments	1,421	0.3	1,421
Man Group	Financial Services	1,398	0.2	1,398
Mattioli Woods	Financial Services	1,385	0.2	1,385
Green Dragon Gas	Oil & Gas Producers	1,371	0.2	1,371
Spirent Communications	Technology Hardware & Equipment	1,365	0.2	1,365
McColl's Retail Group	Food & Drug Retailers	1,336	0.2	1,336
Vertu Motors	Automobiles & Parts	1,311	0.2	1,311
UBM	Media	1,302	0.2	1,302
Nostrum Oil & Gas	Oil & Gas Producers	1,084	0.2	1,084
Rockhopper Exploration	Oil & Gas Producers	1,077	0.2	1,077
Rank Group	Travel & Leisure	1,041	0.2	1,041
Marshall Motor Holdings	Automobiles & Parts	1,036	0.2	1,036
Pendragon	General Retailers	848	0.2	848
Millennium & Copthorne Hotels	Travel & Leisure	768	0.1	768
Stanley Gibbons Group	Software & Computer Services	730	0.1	730
Parkmead Group	Oil & Gas Producers	666	0.1	666
FIH Group	Support Services	637	0.1	637

Portfolio Listing continued

as at 31 August 2016

Long Exposures – shares unless otherwise stated	Sector	Gross Asset Exposure		Balance
		£'000	% ¹	Sheet Value £'000
Vietnam Infrastructure Private Equity Portfolio	Financial Services	322	0.1	322
TVC Holdings	Financial Services	269	0.1	269
SDL	Software & Computer Services	151	–	151
Senior	Aerospace & Defence	93	–	93
Sibanye Gold	Mining	78	–	78
Promethean	Support Services	6	–	6
Total long exposures before hedges (105 holdings)		691,494	119.6	545,021
Less: Hedging Exposure				
FTSE 250 Index Future September 2016		(45,606)	(7.9)	(2,342)
Total long exposures after the netting of hedges		645,888	111.7	542,679
Short Exposures				
Short CFDs (9 holdings)		22,127	3.8	(1,197)
Gross Asset Exposure²		668,015	115.5	
Portfolio Fair Value³				541,482
Net current assets (excluding derivative assets and liabilities)				36,809
Shareholders' Funds				578,291

¹ Gross Asset Exposure is expressed as a percentage of Shareholders' Funds.

² Gross Asset Exposure comprises market exposure to shares of £539,096,000 (per Note 10: Investments, on page 52) plus market exposure to derivative instruments of £128,919,000 (per Note 11: Derivative instruments, on page 54).

³ Portfolio Fair Value comprises Investments of £539,096,000 plus derivative assets of £16,169,000 less derivative liabilities of £13,783,000 (per the Balance Sheet, on page 44).

Distribution of the Portfolio

as at 31 August 2016

The table below and on pages 16 and 17 details the Distribution of the Portfolio based on Gross Asset Exposure which measures the exposure of the Portfolio to market price movements as a result of owning shares, derivative instruments and fixed interest securities.

Shares, derivative instruments and fixed-interest securities	UK %	Overseas %	2016 Gross Asset Exposure ¹ %	Index ² %	2015 Gross Asset Exposure ¹ %
Financials					
Banks	8.3	5.9	14.2	9.5	14.8
Financial Services	8.9	0.3	9.2	2.6	8.9
Real Estate Investment & Services	3.4	2.2	5.6	0.6	8.8
Life Insurance	4.4	–	4.4	4.1	2.8
Non-life Insurance	3.5	–	3.5	1.1	1.1
Real Estate Investment Trusts	1.2	0.3	1.5	1.9	1.2
Equity Investment Instruments	1.4	–	1.4	3.9	1.7
	31.1	8.7	39.8	23.7	39.3
Industrials					
Support Services	12.6	–	12.6	5.3	15.6
Construction & Materials	6.4	–	6.4	1.5	4.2
Industrial Transportation	4.4	–	4.4	0.4	3.2
Aerospace & Defence	4.3	–	4.3	1.8	3.0
Industrial Engineering	2.6	0.4	3.0	0.6	2.3
Electronic & Electrical Equipment	0.8	–	0.8	0.5	4.0
General Industrials	0.8	–	0.8	0.8	0.4
	31.9	0.4	32.3	10.9	32.7
Consumer Services					
Travel & Leisure	6.5	–	6.5	4.3	7.3
General Retailers	3.4	–	3.4	2.2	4.8
Media	2.4	–	2.4	3.8	4.4
Food & Drug Retailers	1.1	–	1.1	1.3	3.3
	13.4	–	13.4	11.6	19.8
Oil & Gas					
Oil & Gas Producers	7.9	–	7.9	10.7	8.5
Oil Equipment, Services & Distribution	–	–	–	0.4	–
	7.9	–	7.9	11.1	8.5

Distribution of the Portfolio continued

as at 31 August 2016

Shares, derivative instruments and fixed-interest securities	UK %	Overseas %	2016 Gross Asset Exposure ¹ %	Index ² %	2015 Gross Asset Exposure ¹ %
Technology					
Software & Computer Services	0.2	7.1	7.3	0.8	2.5
Technology Hardware & Equipment	0.2	–	0.2	1.2	–
	0.4	7.1	7.5	2.0	2.5
Consumer Goods					
Household Goods & Home Construction	1.7	–	1.7	3.3	1.9
Leisure Goods	1.3	–	1.3	–	2.5
Food Producers	0.6	–	0.6	0.8	1.5
Personal Goods	–	0.7	0.7	2.3	0.1
Automobiles & Parts	0.3	–	0.3	0.2	2.8
Beverages	–	–	–	4.6	0.5
Tobacco	–	–	–	5.8	–
	3.9	0.7	4.6	17.0	9.3
Basic Materials					
Mining	1.0	0.9	1.9	4.5	1.5
Chemicals	1.8	–	1.8	0.7	2.5
Forestry & Paper	–	0.6	0.6	0.3	–
	2.8	1.5	4.3	5.5	4.0
Health Care					
Pharmaceuticals & Biotechnology	3.5	–	3.5	8.9	3.6
Health Care Equipment & Services	–	–	–	0.8	0.1
	3.5	–	3.5	9.7	3.7
Telecommunications					
Fixed Line Telecommunications	2.2	–	2.2	1.6	3.4
Mobile Telecommunications	–	–	–	3.0	–
	2.2	–	2.2	4.6	3.4

Shares, derivative instruments and fixed-interest securities	UK %	Overseas %	2016 Gross Asset Exposure ¹ %	Index ² %	2015 Gross Asset Exposure ¹ %
Utilities					
Electricity	-	-	-	0.8	0.6
Gas, Water & Multi-utilities	-	-	-	3.1	-
	-	-	-	3.9	0.6
Total Gross Asset Exposure after the netting of hedges	97.1	18.4	115.5	100.0	

Total Gross Asset Exposure after the netting of hedges – 2015	123.8
---	-------

1 Gross Asset Exposure after the netting of hedges is expressed as a percentage of Shareholders' Funds.

2 The FTSE All-Share Index which is the Company's Benchmark Index.

Ten Year Record

as at 31 August 2016

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Capital											
Shareholders' funds (£m)	578.3	537.3	519.2	478.5	338.6	312.5	333.8	334.5	319.3	376.6	357.9
NAV per share (p) ¹	217.94	201.61	192.29	176.79	124.54	110.57	117.24	117.50	112.43	126.75	109.53
Share price (p) ¹	196.25	197.50	180.20	168.00	105.40	98.80	106.00	110.00	96.30	118.40	104.30
Discount to NAV (%)	10.0	2.0	6.3	5.0	15.4	10.6	9.6	6.4	14.3	6.1	4.8
Revenue											
Revenue return per ordinary share (p) ¹	4.15	3.39	3.10	3.40	2.65	2.29	2.15	1.75	3.43 ²	1.38	0.73
Dividends per ordinary share (p) ¹	3.70	3.35	3.30	3.25	2.60	2.25	2.10	1.80	3.40 ²	1.50	0.75
Ongoing charges (costs of running the Company) (%)	1.10	1.10	1.12	1.21	1.24	1.23	1.23	1.32	1.14	1.32	1.49
Gearing											
Gross gearing (%) ³	15.5	23.8	21.0	24.8	12.6	7.8	12.6	n/a	n/a	n/a	n/a
Net gearing (%) ⁴	7.9	9.4	6.4	14.0	(0.9)	(2.2)	2.6	n/a	n/a	n/a	n/a
Gearing ratio (bank loans) (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.7	3.4	2.8	4.8
Performance Total Return NAV performance (%)	+9.9	+7.3	+10.7	+44.8	+15.0	-4.1	+1.3	+9.0	-9.8	+15.9	+19.4
Share price performance (%)	+1.1	+12.4	+9.2	+63.1	+9.2	-5.0	-2.1	+19.4	-17.6	+14.3	+16.0
Benchmark Index performance (%)	+11.7	-2.3	+10.3	+18.9	+10.2	+7.3	+10.6	-8.2	-8.7	+11.8	+16.8

¹ Figures prior to 2015 have been restated to reflect the five for one sub-division of ordinary shares which took place on 29 June 2015.

² Includes repayment of £2,306,000 VAT on management fees recovered from HM Revenue & Customs.

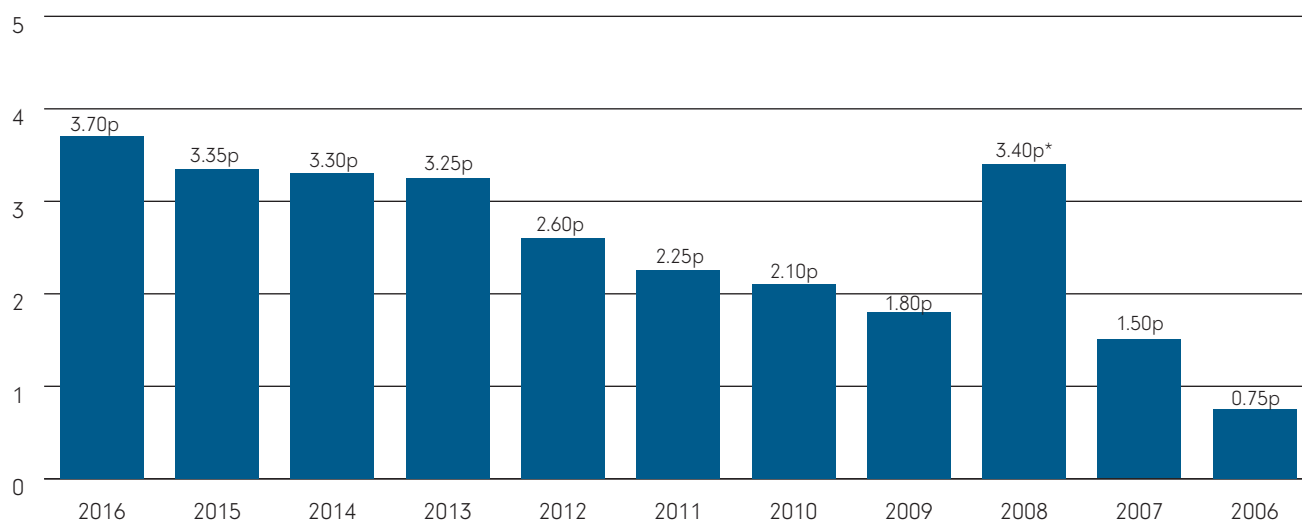
³ Gross gearing is the total of; long exposures, plus short exposures and less exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.

⁴ Net gearing is the total of; long exposures, less short exposures and less exposures hedging the portfolio, expressed as a percentage of Shareholders' funds.

Sources: Fidelity and Datastream.

Past performance is not a guide to future returns.

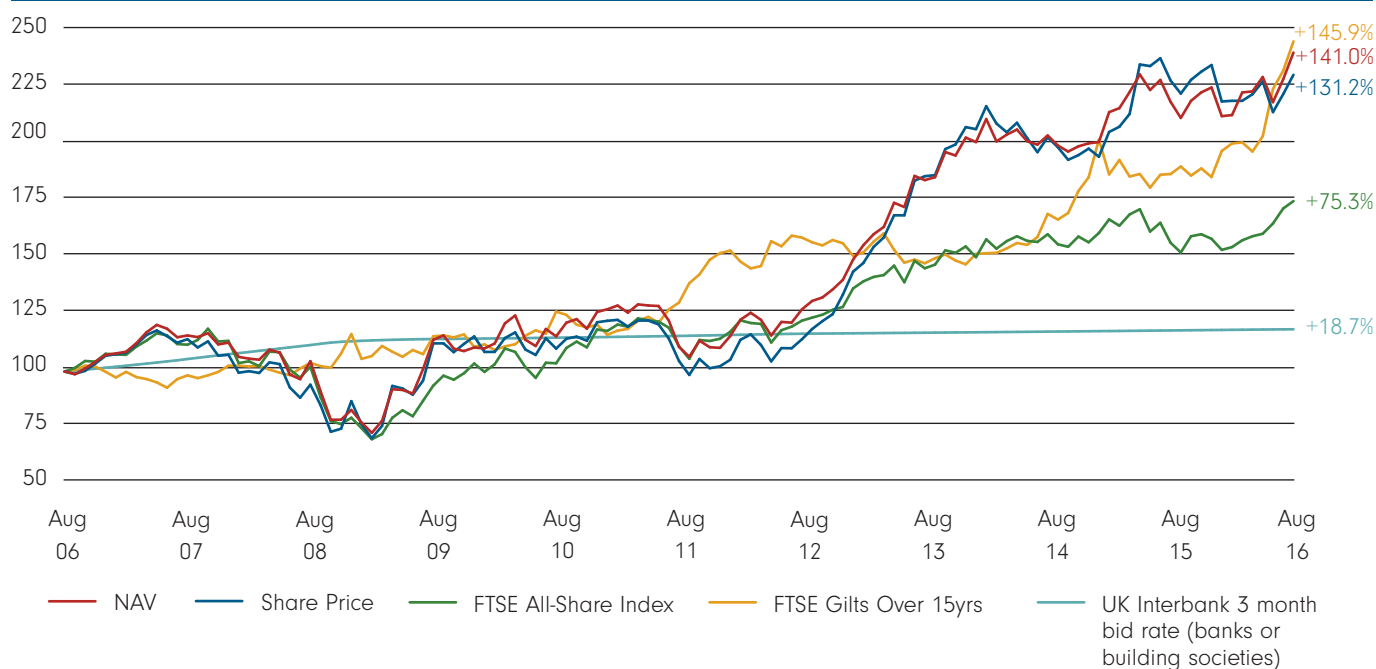
Dividends per ordinary share for ten years to 31 August 2016 (pence)



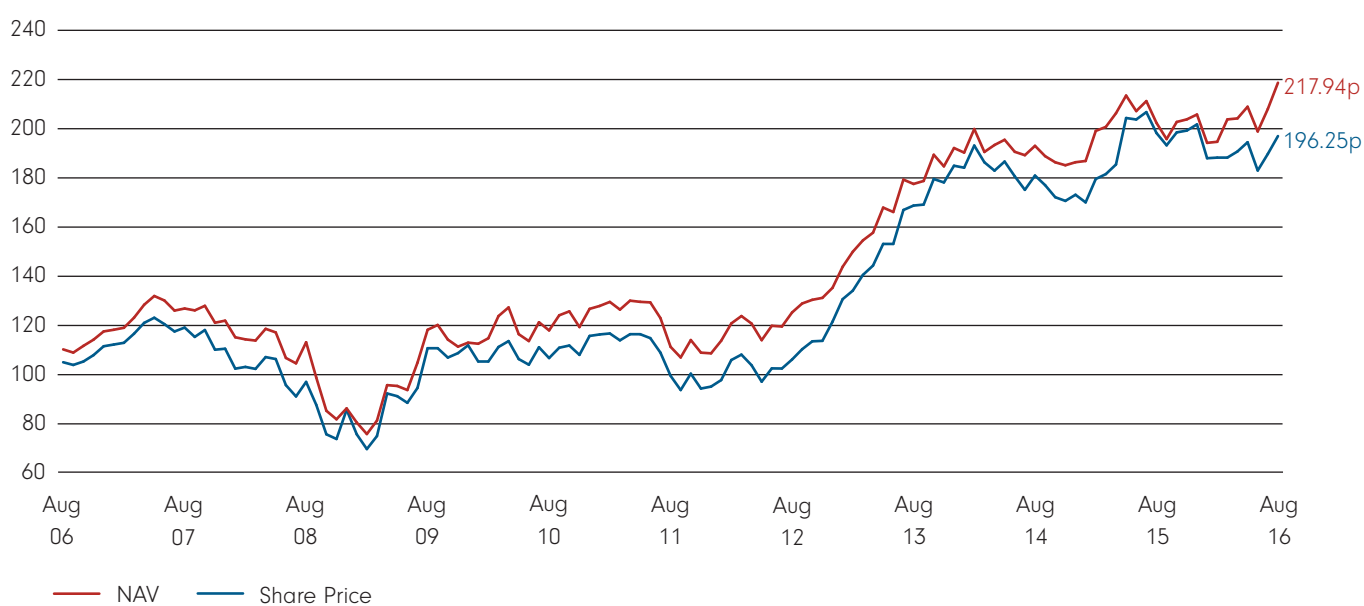
* Includes repayment of VAT on management fee.

Summary of Performance Charts

Total Return performance for ten years to 31 August 2016

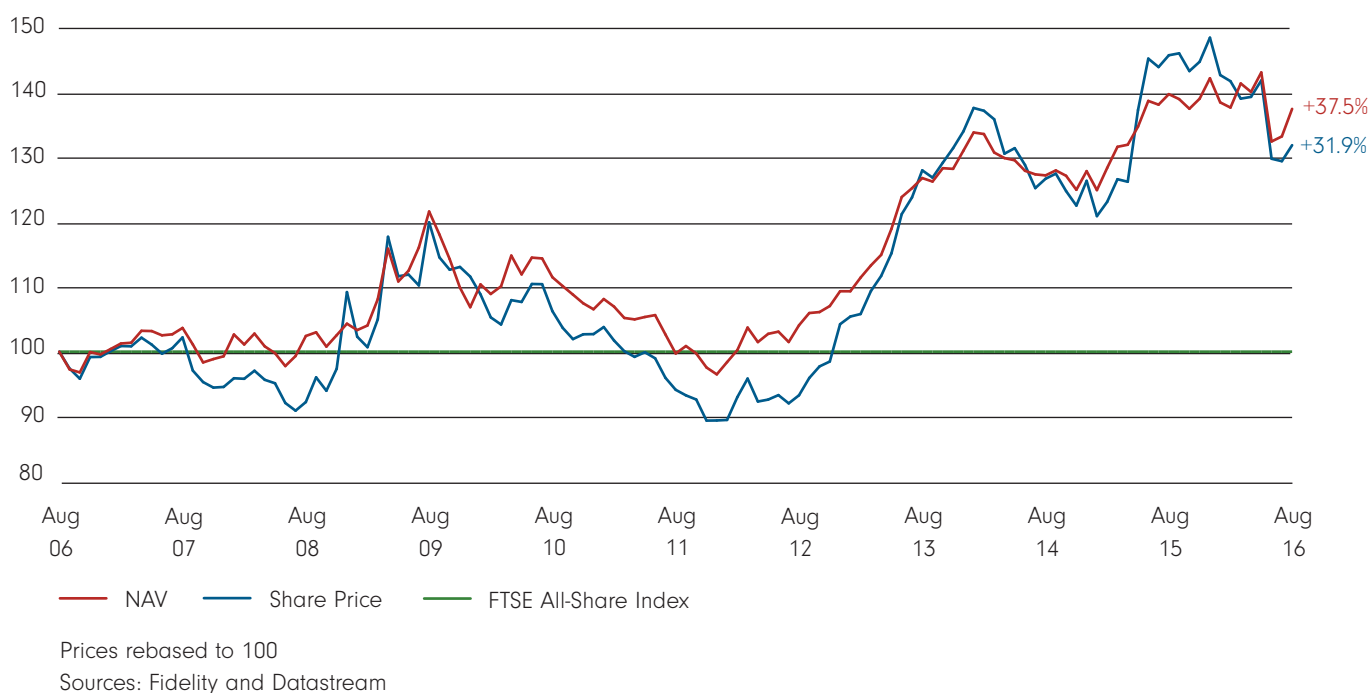


NAV and share price for ten years to 31 August 2016

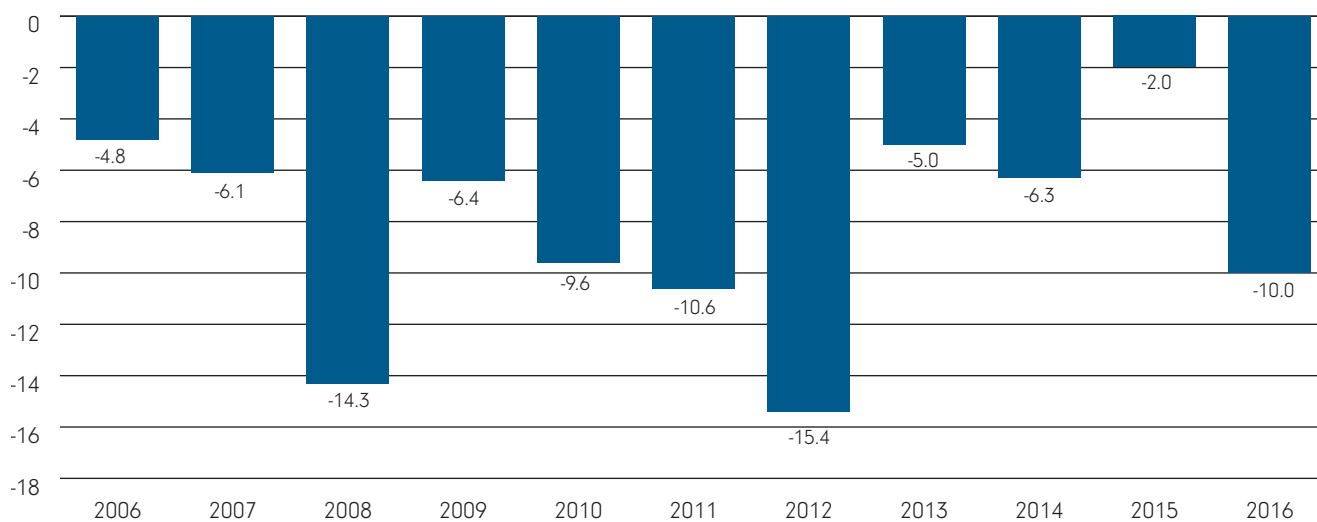


Summary of Performance Charts continued

Total return performance relative to the Benchmark Index for ten years to 31 August 2016



Share price discount to NAV for ten years to 31 August 2016 (%)



Source: Fidelity

Attribution Analysis

Analysis of change in NAV total return during the year (%)

Impact of:	
Index	+11.7
Stock selection	-2.6
Gearing	+1.8
Share Repurchases	+0.1
Operational Costs	-1.1
Total return for the year to 31 August 2016	+9.9

Top 5 and bottom 5 sector contributors (absolute returns)

Top 5	%	Bottom 5	%
Support Services	2.2	Electronic & Electrical Equipment	-0.3
Financial Services	1.4	Index Derivatives	-0.5
Travel & Leisure	1.3	Real Estate Investment & Services	-0.5
Media	1.3	General Retailers	-0.9
Software & Computer Services	1.2	Banks	-3.1

5 Highest stock contributors and detractors (absolute returns)

Top 5 stock contributors	%	Top 5 stock detractors	%
Hewlett Packard Enterprise	1.6	Carpetright	-0.5
Ladbrokes	1.2	Barclays	-0.7
Burford Capital	1.2	Countrywide	-1.0
Homeserve	1.2	Lloyds Banking Group	-1.1
CRH	1.1	Bank of Ireland	-1.2

Source: Fidelity.

Board of Directors



Andy Irvine
Chairman (since 5 July 2016)
Appointed 15 April 2010
Member of the:
Management Engagement
Committee (Chairman);
Nomination Committee (Chairman).

Andy Irvine is a Non-Executive Chairman of Jones Lang La Salle Scotland and has over 30 years' experience in the field of commercial property development and investment. He is also Chairman of Montanaro European Smaller Companies PLC, a Non-Executive Director of BlackRock North American Income Trust plc and a Non-Executive Director of Securities Trust of Scotland PLC. Mr Irvine is a past Chairman of Celtic Rugby Limited, a past Chairman of the British and Irish Lions Limited and a past President of the Scottish Rugby Union.



Nigel Foster
Appointed 1 September 2015
Member of the:
Audit Committee
Management Engagement Committee
Nomination Committee.

Nigel Foster has over 30 years' experience in the financial services industry. Prior to joining the Board, he was the Head of Trading & Liquidity Strategies Group for the EMEA region and Global Head of Derivatives at BlackRock. Previously, he was Chief Executive at E-Crossnet and set up and ran this pan-European equity crossing network for major institutions. He was a Managing Director at Merrill Lynch Investment Managers and a fund manager at Robert Fleming (now part of JP Morgan).



Sharon Brown
Senior Independent Director (since 5 July 2016)
Chairman of the Audit Committee
(since 26 October 2010)
Appointed 15 April 2010
Member of the:
Audit Committee (Chairman); Management
Engagement Committee; Nomination Committee.

Sharon Brown is a Non-Executive Director and Chairman of the Audit Committee of F&C Capital and Income Investment Trust PLC and of McColl's Retail Group plc. She is a Director of Delight Delicatessen Limited. Mrs Brown was Finance Director of Dobbies Garden Centres Ltd between 1998 and 2013. She previously held a senior financial position at John Menzies plc and is a Fellow of the Chartered Institute of Management Accountants.



Nicky McCabe
Appointed 9 December 2004
Member of the:
Nomination Committee .

Nicky McCabe is Fidelity's Head of Investment Trusts. She is also a Non-Executive Director of DeltaHealth China, an Eight Roads business which is a division of Fidelity International Limited Group, a Director of FIL Investment Services (UK) Limited, FIL Retirement Services Limited and Financial Administration Services Limited, and a Trustee of Tomorrow's People. Prior to her current role, she was Chief Operating Officer ("COO") of Eight Roads and COO for Fidelity's investment management teams, having joined Fidelity in 1999 as Head of Investment Administration. Prior to joining Fidelity, she worked for HSBC Asset Management and McKinsey & Co.



Dean Buckley
Appointed 3 November 2015
Member of the:
Audit Committee
Management Engagement Committee
Nomination Committee.

Dean Buckley is a Non-executive Director of JPMorgan Asian Investment Trust plc. He was previously Chief Executive Officer at Scottish Widows Investment Partnership. Prior to this appointment he held several positions at HSBC Bank plc, including Chief Executive Officer for HSBC Asset Management UK and Middle East and Chief Investment Officer for HSBC Asset Management, European equities, and held a number of senior fund manager positions at Prudential Portfolio Managers. He is a Fellow of the Institute of Actuaries.

All of the Directors are Non-Executive Directors and (with the exception of Ms McCabe) are independent.
 No Director holds cross-directorship or has significant links with other Directors through involvement in other companies.

Directors' Report

The Directors have pleasure in presenting their report together with the audited Financial Statements of the Company for the year ended 31 August 2016.

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 and commenced business as an investment trust on 17 November 1994.

Management Company

FIL Investment Services (UK) Limited ("FIL") was appointed as the Company's Alternative Investment Fund Manager (the "Manager") with effect from 8 July 2014. At the same time, FIL, as the new Manager, delegated the portfolio management of assets and the role of company secretary to FIL Investments International ("FIL").

The Alternative Investment Fund Management and Secretarial Services Agreement (the "Management Agreement") will continue unless and until terminated by either party giving to the other, not less than six months' notice in writing. However, it may 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.

Fee Arrangements

The Management Agreement provides portfolio management services for an annual fee of 0.875% of the Company's net assets per annum, (excluding the value of any investment in any fund managed by the Manager) and £600,000 for services other than portfolio management (to include company secretarial, fund accounting, taxation, promotional and corporate advisory services). The fees are calculated and paid quarterly.

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 on sales of investments' in Note 10 on page 53. In the year to 31 August 2016, £61,000 was received (2015: £79,000). There is a regulatory requirement on the Manager to obtain best execution and no deal is entered into which prevents compliance.

The Board

Andy Irvine, Sharon Brown, Nigel Foster and Nicky McCabe served throughout the year ended 31 August 2016. Dean Buckley was appointed to the Board on 3 November 2015, Ben Thomson and Douglas Kinloch Anderson stepped down from the Board on 15 December 2015 and Lynn Ruddick stepped down from the Board on 5 July 2016. A brief description of all the Directors as at the date of this report is shown on page 22 and indicates their qualification for Board membership.

Nicky McCabe, a Non-Executive Director of the Company, is employed by FIL Limited and is the Head of Investment Trusts. FIL Limited has no beneficial interest in the shares of the Company (2015: same).

Directors and Officers' Liability Insurance

In addition to benefits 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.

Going Concern

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least 12 months from the date of this Annual Report. The prospects of the Company over a period longer than 12 months can be found in the Viability Statement on page 9.

Auditor's Appointment

As mentioned in last year's Annual Report, Ernst & Young LLP was appointed as the Company's independent Auditor at the Annual General Meeting on 15 December 2015.

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 confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each Director has taken all the steps that ought to have been taken as a Director to make himself/herself aware of any relevant audit information, and to establish that the Company's Auditor is aware of that information.

Articles of Association

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

Corporate Governance

Full details are given in the Corporate Governance Statement, which forms part of this report on pages 27 to 31.

Registrar, Custodian and Depositary Arrangements

The Company employs Capita Asset Services to manage the Company's share register, JPMorgan Chase Bank as its Custodian, who is primarily responsible for safeguarding the Company's assets, and J.P. Morgan Europe Limited as its Depositary who is primarily responsible for oversight of the custody of investment funds and the protection of investor's interests.

Directors' Report continued

Share Capital

The Company's share capital comprises of ordinary shares of 5 pence each and are fully listed on the London Stock Exchange. As at 31 August 2016, the issued share capital of the Company was 270,644,480 shares of which 5,295,000 shares are held in Treasury. Therefore, the total number of shares with voting rights was 265,349,480. 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 66 and 67.

Premium/Discount Management: Enhancing Shareholder Value

The Board actively manages the level of premium/discount and seeks to maintain the discount in single digits in normal market conditions. It seeks authority from the Shareholders each year to issue shares at a premium or to repurchase shares at a discount to the NAV either for cancellation or for holding in Treasury. The Board will exercise these authorities if deemed to be in the best interests of Shareholders at the time.

Share Issues

No ordinary shares were issued during the year to 31 August 2016 (2015: 75,000 issued from Treasury) and none have been issued since the year end and as at the date of this report.

The authorities to issue shares and disapply pre-emption rights expire at the conclusion of this year's Annual General Meeting ("AGM") and therefore resolutions renewing these authorities will be put to Shareholders at the AGM on 13 December 2016.

Share Repurchases

During the year to 31 August 2016, the Company repurchased 1,175,000 ordinary shares for holding in Treasury (2015: 75,000). Since the year end and as at the date of this report, 725,000 ordinary shares have been repurchased for holding in Treasury.

The authority to repurchase shares expires at the forthcoming AGM and a special resolution to renew the authority to purchase shares for cancellation, including the ability to buy shares into Treasury, will therefore be put to Shareholders for approval at the AGM on 13 December 2016.

Substantial Share Interests

As at 31 August 2016 and 30 September 2016, notification had been received that the Shareholders listed in the table opposite held more than 3% of the issued share capital of the Company.

	31 August 2016 (%)	30 September 2016 (%)
Shareholders		
Fidelity Platform Investors ¹	29.23	28.93
Alliance Trust Savings	8.16	8.05
Rathbones	5.29	5.30
Hargreaves Lansdown	5.11	5.16
Individuals	4.86	4.85
Old Mutual Global Investors	3.61	3.61

¹ Held in aggregate by ISA, SIPP, General Investment accounts and Share Plan Investors.

An analysis of ordinary Shareholders as at 31 August 2016 is detailed in the table below.

Ordinary Shareholders as at 31 August 2016	% of voting share capital
Private Shareholders ¹	84.51
Institutions	9.70
Pensions	2.63
Insurance	2.33
Other	0.83

¹ Includes Fidelity Investors.

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. Fidelity is a signatory to the UK Stewardship Code setting out the responsibilities of institutional Shareholders and agents. Further details of the Manager's Principles of Ownership and voting may be found at www.fidelity.co.uk.

Relations with Shareholders

Communication with Shareholders is given a high priority by the Board and it liaises with the Manager and the Company's broker who are in regular contact with the Company's major institutional investors to canvass Shareholder opinion and to communicate its views to Shareholders. All Directors are made aware of Shareholders' concerns and the Chairman, the Senior Independent Director and, where appropriate, other Directors, are available to meet with Shareholders to discuss strategy and governance. The Board regularly monitors the Shareholder profile of the Company and receives regular reports from the Manager on meetings attended with Shareholders and any concerns raised in such meetings. The Board aims to provide the maximum opportunity for dialogue between the Company and

Shareholders. If any Shareholder wishes to contact a member of the Board directly they should either email the Company Secretary using our address investmenttrusts@fil.com or write to the address provided on page 69. The Company Secretary will attend to any enquiries promptly and ensure that they are directed to the Chairman, Senior Independent Director or the Board as a whole as appropriate.

The Board encourages all Shareholders to attend the AGM at which there is a presentation by Alex Wright, the Portfolio Manager, of the past year's results and the prospects for the forthcoming year. Shareholders have the opportunity to meet and address questions to the Board, the Portfolio Manager and representatives of the Manager.

The Notice of Meeting on pages 65 to 67 sets out the business of the AGM and the special business resolutions are explained more fully below. A separate resolution is proposed on each substantially separate issue including the Annual Report and Financial Statements. The Notice of the AGM and related papers are sent to Shareholders at least 20 working days before the Meeting.

Voting Rights in the Company's Shares

Every Shareholder on a show of hands has one vote. On a poll every Shareholder who is present in person or by proxy or representative has one vote for every ordinary share. 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. The proxy voting results are disclosed on the Company's page of the Manager's website at www.fil-fidelityinvestmenttrusts.com.

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 advice from your stockbroker, bank manager, solicitor, accountant or other financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold, transferred or otherwise disposed of all of your ordinary shares in the Company, you should pass this document, together with any other accompanying documents (but not the personalised Form of Proxy or Form of Direction) as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

At the AGM on 13 December 2016, resolutions will be proposed relating to the items of business set out in the Notice of Meeting on pages 65 and 66, including the items of special business summarised below.

Authority to Allot Shares

Resolution 11 is an ordinary resolution and provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,323,122. If passed, this resolution will enable the Directors to allot a maximum of 26,462,448 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company (including Treasury shares) as at 3 November 2016 and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter. The Directors would not intend to use this power unless they considered that it was in the interests of Shareholders to do so. Any shares issued would be at net asset value per share, or at a premium to net asset value per share.

Authority to Disapply Pre-emption Rights

Resolution 12 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific Shareholder approval, to make allotments of equity securities or sale of Treasury shares for cash by way of (a) rights issues, normally on a proportionate basis but where necessary taking into account practical considerations, such as fractions and foreign security laws, and (b) other issues up to an aggregate nominal value of £1,323,122 (including Treasury shares) (approximately 10% of the issued ordinary share capital of the Company as at 3 November 2016 and equivalent to 26,462,448 ordinary shares).

Authority to Repurchase the Company's Shares

Resolution 13 is a special resolution which renews the Company's authority to purchase up to 14.99% (40,569,607) of ordinary shares in issue (excluding Treasury shares) on 3 November 2016 either for immediate cancellation or for retention as Treasury shares at the determination of the Directors. Once shares are held in Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or by cancelling the shares. Purchases of ordinary shares will be at the discretion of the Directors and within guidelines set from time to time by them 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.

Continuation Vote

Resolution 14 is an ordinary resolution regarding the continuation of the Company as an investment trust for a further three years. The last continuation vote was passed in 2013. The Directors expect the continuation vote to be passed.

The full text of the resolutions is set out in the Notice of Meeting contained on pages 65 and 66.

Directors' Report continued

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.

By Order of the Board

FIL Investments International

Secretary

3 November 2016

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 Codes

The Board follows the principles of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council (the "FRC") in September 2014 and the AIC's Code of Corporate Governance (the "AIC Code") issued by the Association of Investment Companies ("AIC") in February 2015. The FRC has confirmed that investment companies which report against the AIC Code and which follow the AIC Guide on Corporate Governance will meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

The AIC Code and the AIC Guide can be found on the AIC's website at www.theaic.co.uk and the UK Code on the FRC's website at www.frc.org.uk.

Statement of Compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code for the year under review and up to the date of this report, except in relation to the UK Code provisions relating to the role of the chief executive; executive directors' remuneration; and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the position of Fidelity Special Values PLC, as it is an externally managed investment company and has no executive directors, employees or internal operations.

The Corporate Governance of an Investment Trust Company

The corporate governance of most investment 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 instead the services of a fund management company. This affects the way investment companies are governed but not the purpose of their governance. Given that the Manager's business is not dedicated solely to the interests of investment companies and their Shareholders, investment company boards must be largely independent of management. However, it must have knowledge and experience of both fund management and investment company management. Fidelity Special Values PLC was established and is managed and promoted by its Manager, which is therefore one of the main reasons some 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 company, while following the guidelines of the AIC Code, 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 Board members (including the Chairman), who are independent of management, and that within the Board there is understanding and experience of investment management, investment company management, the investment objective of the Company, marketing, general business experience and finally of Fidelity's investment philosophy and its operations.

The Directors recognise that any individual employed by or materially associated with the Manager cannot be regarded as independent. Consequently, at any given time there has only ever been one Fidelity member serving as a Director. Details of the Directors' current business associations are set out on page 22. 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 any interests that may arise as part of considering any potential conflicts.

All of the Directors are Non-Executive and, other than Nicky McCabe, have no relationship with the Manager.

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

- integrity, commitment, intelligent challenge;
- independence of mind and character;
- experience and knowledge of investment trusts, of the investment business generally and of Fidelity;
- financial literacy;

Corporate Governance Statement continued

- conflicts of interest; and
- performance as a Director.

Based on the above considerations all non-Fidelity Directors, including the Chairman, are considered to be independent.

Tenure, the term served by a director, is a controversial issue. It is the Board's belief that it can best do its job if it works as a team composed of individuals who work well together, and if each contributes to its performance. It believes that Board membership

benefits from the inclusion of 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 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 meets regularly to discharge its duties effectively and the table below gives the attendance record for the meetings held during the reporting year.

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
Andy Irvine ¹	5/5	1/1	3/3	1/1
Sharon Brown	5/5	1/1	3/3	1/1
Dean Buckley	5/5	1/1	3/3	1/1
Nigel Foster	5/5	1/1	3/3	1/1
Nicky McCabe	5/5	1/1	n/a	n/a
Lynn Ruddick ²	5/5	1/1	n/a	1/1
Ben Thomson ³	2/2	1/1	1/1	1/1
Douglas Kinloch Anderson ³	2/2	1/1	n/a	1/1

¹ Stepped down as a member of the Audit Committee on appointment as Chairman on 5 July 2016.

² Retired from the Board on 5 July 2016.

³ Retired from the Board on 15 December 2015.

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.

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; and
3. Making recommendations to Shareholders (for their consideration at Annual General Meetings) on matters not delegated to the Board, which include the approval of the

annual financial statements, the election and re-election of Directors and the appointment of the independent Auditor.

Authority

The Board is furnished by the Shareholders with the authority to manage the Company on their behalf, in order to discharge the responsibilities outlined above. The Board, being independent of management (by majority), carries out its duties through Board meetings and Board appointed 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 the Manager, there are certain decisions retained and made by the Directors, including the payment of dividends, the share issue and share repurchase guidelines and the derivatives and gearing policies.

In structuring 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 issues and share repurchases and the marketing of the Fidelity Platform Investors). 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 Adviser and Stock Broker to discuss Shareholder value and investor relation matters while the Manager meets with the larger Shareholders on a regular basis and reports back to the Board on those meetings. Key representatives of the Manager attend each Board meeting, enabling the Board to discuss business matters further.

The Board discharges certain of its corporate governance responsibilities through three Committees as set out below. Written terms of reference of each Committee are available on the Company's pages of the Manager's website at www.fidelityinvestmenttrusts.com.

The Audit Committee

The Audit Committee is chaired by Sharon Brown and consists of all of the independent Directors, except for Andy Irvine. Full details of the Audit Committee are disclosed in the Report of the Audit Committee on pages 36 and 37.

The Management Engagement Committee

The Management Engagement Committee is chaired by Andy Irvine and consists of all the Directors except Nicky McCabe given her employment by the Manager. It is charged with reviewing and monitoring the performance of the Manager and for ensuring that the terms of the Management Agreement remains competitive for Shareholders.

The criteria taken into consideration in reviewing the performance of the Manager are the quality of the team; commitment of the Manager to the Company and investment trust business; administration, accounting and the secretaryship of the Company; investment management skills, experience and track record; Shareholder relations and discount management; the Management Agreement, including fees, notice periods and duties; and marketing to secure potential long term investors.

The Management Engagement Committee has reviewed the performance of the Manager and concluded that it is in the interests of Shareholders that the Management Agreement should continue. Details of the Management Agreement and the current fee is on page 23.

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

The Nomination Committee

The Nomination Committee is chaired by Andy Irvine and consists of all the Directors. The Committee meets at least once a year and is charged with nominating new Directors for consideration by the Board, and in turn for approval by Shareholders; and also consideration of the reappointment of Directors.

In respect of new Directors, the Board believes that it is important in the search for and recommendation of a candidate to the Board that it is controlled by the independent Directors who form the majority of this Committee. The Committee 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, including gender, on the Board.

Upon appointment, each Director is provided with all relevant information regarding the Company and receives an induction on the investment operation and administration functions of the Company, together with a summary of their duties and responsibilities. Directors are encouraged to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company. The Directors also receive regular briefings from, amongst 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.

The Committee also considers the re-election of Directors ahead of each AGM. Biographical details for each Director are set out on page 22 and provide sufficient information to enable Shareholders to make an informed decision. 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.

Ahead of each AGM, an evaluation of the Board and its Committees takes place in the form of a questionnaire and one to one discussions. The performance of the Chairman is evaluated by the other Directors. The Company Secretary and Manager also participate in the evaluation process to provide all round feedback to the Board. The results of these evaluations are considered 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.

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

Corporate Governance Statement continued

financial report, a half-yearly financial report, the presentation of the Company's results and future prospects at the AGM and accessibility to the Board at any time via the Company Secretary.

The AGM 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 an 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 election and 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 enables 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 on 13 December 2016.

Directors' Remuneration

The level of Directors' fees is determined by the whole Board. Full details are disclosed in the Directors' Remuneration report on pages 32 and 33.

Senior Independent Director

The Board has appointed Sharon Brown as Senior Independent Director. She fulfils the role as a sounding board for the Chairman, an intermediary for the other Non-Executive Directors as necessary, and to act as a channel of communication for Shareholders in the event that contact through the Chairman is inappropriate.

The Company Secretary

The Board has access to the advice and services of the Company Secretary. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Directors also have the ability to take independent professional advice, if necessary, at the Company's expense.

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.

Risk Management and Internal Controls

The Board is responsible for the Company's systems of risk management and of internal controls and for reviewing their effectiveness. The review takes place at least once a year. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide

reasonable, but not absolute, assurance against material misstatement or loss.

The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives. It 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. The Manager provides regular reports on controls and compliance issues to the Audit Committee and the Board. In carrying out its review, the Audit Committee has regard to the activities of the Manager, the Manager's compliance and risk functions and the independent Auditor and also includes consideration of internal controls of similar reports issued by the other service providers.

The Board, assisted by the Manager, has undertaken a rigorous risk and controls assessment. It confirms that this is an effective ongoing process in order to identify, evaluate and manage the Company's principal business and operational risks, and that it has been in place throughout the year ended 31 August 2016 and up to the date of this Annual Report. This process is in accordance with the FRC's "Risk Management, Internal Control and Related Financial and Business Reporting" guidance.

The Board has reviewed the need for an internal audit function and has determined that the systems and procedures employed by the Manager provide sufficient assurance that a sound system of internal controls is maintained to safeguard Shareholders' investments and the Company's assets. An internal audit function, specific to the Company, is therefore considered unnecessary. The Audit Committee meets the Manager's internal audit representative at least three times a year.

Whistle-Blowing Procedure

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


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 Manager,

the 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.

On behalf of the Board



Andy Irvine

Chairman

3 November 2016

Directors' Remuneration Report

Chairman's Statement

The Directors' Remuneration Report for the year ended 31 August 2016 has been prepared in accordance with the Large & Medium-sized Companies & Groups (Accounts & Reports) (Amendment) Regulations 2013 (the "Regulations"). As the Board is comprised entirely of Non-Executive Directors and has no employees, many parts of the Regulations, in particular those relating to chief executive officer pay and employee pay, do not apply and are therefore not disclosed in this report.

An ordinary resolution to approve the Directors' Remuneration Report will be put to Shareholders at the Annual General Meeting ("AGM") on 13 December 2016. The Company's independent Auditor is required to audit certain sections of this report and where such disclosures have been audited, the specific section has been indicated as such. The Auditor's opinion is included in its report on pages 38 to 42.

Directors' Remuneration

The annual fee with effect from 1 January 2016 is as follows: Chairman – £38,750; Chairman of the Audit Committee – £30,000; and Director – £25,500. Levels of remuneration are competitive and sufficient to attract and retain the quality of Directors needed to manage the Company successfully.

The Remuneration Policy

The Remuneration Policy is subject to a binding vote, in the form of an ordinary resolution at every third AGM. A binding vote means that if it is not successful the Board will be obliged to revise the policy and seek further Shareholder approval at a General Meeting specially convened for that purpose. The current policy is set out below.

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 Board's policy to determine the level of Directors' fees having regard to the time spent by them on the Company's affairs; the level of fees payable to non-executive directors in the industry generally; the requirement to attract and retain individuals with suitable knowledge and experience; and the role that individual Directors fulfil. Other than fees and reasonable travel expenses incurred in attending the affairs of the Company, the Directors are not eligible for any performance related pay or benefits, pension related benefits, share options, long term incentive schemes, or other taxable benefits. The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

The level of Directors' fees is determined by the whole Board. Directors do not vote on their own fees. The Board reviews the Company's Remuneration Policy and implementation on an annual basis. Reviews are based on information provided by the Company's Manager, and research from third parties and it includes information on the fees of other similar investment trusts.

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 Company's Articles of Association. Copies of the Directors' letters of appointment are available at each of the Company's AGMs and can be obtained from the Company's registered office.

In common with most investment trusts there is no chief executive officer and there are no employees.

The Company's remuneration policy will apply to new Board members, who will be paid at the same level as current Directors.

Report on the implementation of the Remuneration Policy

The Remuneration Policy was formalised for the first time at the AGM held on 10 December 2014 and the next vote will be put to Shareholders in 2017. The Policy has been followed throughout the year ended 31 August 2016.

The Directors' Remuneration Report, which is subject to approval by Shareholders by way of an ordinary resolution at each AGM, is a non-binding 'advisory' resolution. In the event that Shareholders vote against the resolution, the Board will be required to put its Remuneration Policy for Shareholder approval at the next AGM, regardless of whether the Remuneration Policy was approved by Shareholders within the last three years.

Voting at the Company's last Annual General Meeting

At the AGM held on 15 December 2015, 98.32% of votes were cast in favour of the Directors' Remuneration Report for the year ended 31 August 2015, 0.91% of votes were cast against and 0.77% of votes were withheld. Votes cast on the Directors' Remuneration Report at this year's AGM with regard to the resolution will be disclosed on the Manager's website at www.fidelityinvestmenttrusts.com.

The Company's Remuneration Policy was approved by Shareholders at the AGM on 10 December 2014, with 97.57% of the votes cast in favour, 1.35% votes against and 1.08% votes withheld.

Single Total Figure of Remuneration

The single total aggregate Directors' remuneration for the year under review was £168,882 (2015: £155,135). Information on individual Directors' fees and taxable benefits is disclosed in the table on page 33. Taxable benefits relate to travel and other expenses incurred wholly in their role as Directors.

The projected fees for 2017 are £119,750 compared to £154,230 for 2016 which included crossover between Directors retirements and appointments.

	2017 Projected Fees (£)	2016 Fees (Audited) (£)	2016 Taxable Benefits (Audited) (£)	2016 Total (Audited) (£)	2015 Fees (Audited) (£)	2015 Taxable Benefits (Audited) (£)	2015 Total (Audited) (£)
Remuneration of Directors							
Andy Irvine ¹	38,750	28,693	3,317	32,010	25,333	2,119	27,452
Sharon Brown	30,000	30,000	3,733	33,733	29,667	1,757	31,424
Dean Buckley ²	25,500	21,250	1,394	22,644	-	-	-
Nigel Foster ³	25,500	25,500	-	25,500	-	-	-
Nicky McCabe ⁴	-	-	-	-	-	-	-
Lynn Ruddick ⁵	n/a	33,295	2,393	35,688	38,500	1,498	39,998
Ben Thomson ⁶	n/a	8,038	1,866	9,904	27,333	1,585	28,918
Douglas Kinloch Anderson ⁶	n/a	7,454	1,949	9,403	25,333	2,010	27,343
Total	119,750	154,230	14,652	168,882	146,166	8,969	155,135

1 Appointed as Chairman 5 July 2016.

2 Appointed 3 November 2015.

3 Appointed 1 September 2015.

4 Waives her Directors' fees.

5 Retired 5 July 2016.

6 Retired 15 December 2015.

Directors' fees are paid monthly in arrears. Directors do not serve a notice period if their appointment were to be terminated.

Expenditure on Directors' Remuneration and Distributions to Shareholders

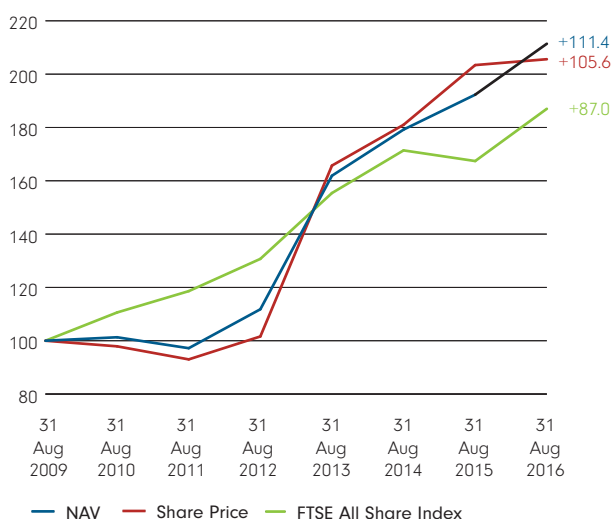
The table below shows the total amount paid out in remuneration and distribution to Shareholders.

	31 August 2016 £	31 August 2015 £
Expenditure on Remuneration:		
Aggregate of Directors' Fees	168,882	155,135
Distribution to Shareholders:		
Dividend payments	8,922,000	11,551,000
Shares repurchased	2,216,000	6,599,000

Performance

The Company's investment objective is to achieve long term capital growth predominantly through investment in UK listed companies. The graph opposite shows performance over seven years to 31 August 2016.

Total return performance for seven years to 31 August 2016



Prices rebased to 100

Sources: Fidelity and Datastream

Directors' Remuneration Report continued

Directors' Interest in Ordinary Shares

Although there is no requirement for the Directors to hold shares in the Company, shareholdings by Directors are encouraged. The interests of the Directors' in the shares of the Company are shown below. All of the shareholdings are beneficial.

Directors' Shareholdings (Audited)

	31 August 2016	31 August 2015	Change during year
Andy Irvine	75,000	75,000	-
Sharon Brown	15,600	15,600	-
Dean Buckley ¹	12,500	n/a	n/a
Nigel Foster ²	20,000	n/a	n/a
Nicky McCabe	12,990	12,775	215 ³
Lynn Ruddick ⁴	n/a	42,230	n/a
Ben Thomson ⁵	n/a	104,025	n/a
Douglas Kinloch Anderson ⁵	n/a	92,075	n/a

1 Appointed 3 November 2015.

2 Appointed 1 September 2015.

3 Dividend reinvestment.

4 Retired 5 July 2016.

5 Retired 15 December 2015.

The Portfolio Manager also holds ordinary shares in the Company.

All Directors' shareholdings remain unchanged at the date of this report.

On behalf of the Board



Andy Irvine

Chairman

3 November 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. 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;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and

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 the 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 Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors have delegated responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at www.fidelityinvestmenttrusts.com to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their jurisdictions.

The Directors confirm that to the best of their 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;
- The Annual 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.

The Directors consider that the Annual Report and Financial Statements taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 3 November 2016 and signed on its behalf.



Andy Irvine
Chairman

Report of the Audit Committee

I am pleased to present the formal report of the Audit Committee to Shareholders.

The primary responsibilities of the Committee are to ensure the integrity of the Company's financial reporting and the appropriateness of the risk management processes and internal controls. This report details how we carry out this role.

Notably during this year the Committee oversaw compliance with the new amended UK Corporate Governance Code (and in particular the requirement to include a viability statement in the accounts), the adoption of FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the revised Statement of Recommended Practice, issued by the Association of Investment Companies and Venture Capital Trusts in November 2014. This change is disclosed in Note 2: Accounting policies on page 46.

Composition and Meetings

The members of the Committee are myself as Chairman, Nigel Foster and Dean Buckley. All Committee members are independent Non-Executive Directors, and their skills and experience are set out on page 22. The Committee considers that collectively the members have sufficient recent and relevant sector and financial experience to fully discharge their responsibilities.

The Committee met three times during this reporting year. The Committee invites the independent Auditor and personnel from the Manager's financial and internal audit functions to attend and report to the Committee on relevant matters. During the year I also met privately with the independent Auditor and a representative from the Manager's internal audit function to give them an opportunity to raise any issues without management present. After each Committee meeting I report to the Board on the main items discussed at the meeting.

Ahead of each AGM, the Committee's performance is evaluated as part of the overall Board evaluation as reported on page 29.

Significant issues considered by the Committee during the year

The Annual Report and Financial Statements are the responsibility of the Board and the Statement of Directors' Responsibilities is on page 35. The Audit Committee advises the Board on the form and content of the Annual Report and Financial Statements, any issues which may arise in relation to these and any specific areas which require judgement.

Summarised below are the most significant issues considered by the Committee in respect of these Financial Statements, and how these issues were addressed.

Recognition of Investment Income	Investment income is recognised in accordance with accounting policy Note 2(d) on pages 46 and 47. The Manager provided detailed revenue forecasts which the Committee reviewed and sought explanations for any significant variances to these forecasts. The Audit Committee reviewed internal audit and compliance monitoring reports received from the Manager, to satisfy itself that adequate systems were in place for properly recording the Company's income. Investment income was also tested and reported on by the independent Auditor.
---	---

Role and Responsibilities of the Audit Committee

The Committee's authority and duties are defined in its terms of reference, which were reviewed during the year and are available on the Company's pages of the Manager's website (www.fidelityinvestmenttrusts.com). The principal activities carried out during the year were:

- **Financial reporting:** we considered the Company's financial reports, including the implications of new accounting standards and regulatory changes, significant accounting issues and the appropriateness of the accounting policies adopted. We considered and are satisfied that, taken as a whole, the 2016 Annual Report is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy;
- **Internal and external audits:** we considered the scope of the internal audit of the Manager and the external audit plan and the subsequent findings from this work, receiving regular reports from the internal audit of the Manager and the external Auditor. The Committee also monitored progress in the implementation of the Manager's internal audit recommendations;
- **Risk and internal control:** we dedicated a full Committee meeting to the consideration of the key risks facing the Company and the adequacy and effectiveness of the internal controls and risk management processes; and
- **External Auditor:** we considered the independence, effectiveness and fees of the independent Auditor, as detailed later in this report.

Valuation, existence and ownership of investments (including derivatives)

The valuation of investments (including derivatives) is in accordance with accounting policy Notes 2(k) and 2(l) on pages 47 and 48. The Committee took comfort from the Depositary's regular oversight reports that investment related activities were conducted in accordance with the Company's investment policy. The Committee received reports from the Manager and the Company's independent Auditor who had verified the valuation of the Company's investments and derivatives by reference to independent sources and had also confirmed the existence and ownership of the investments with the Company's Custodian and that of the derivatives with the Company's counterparty. Unlisted investments are appraised by Fidelity's Fair Value Pricing ("FFVP") Committee in accordance with UK GAAP and International Private Equity and Venture Capital Valuation Guidelines. The Committee receives information from the FFVP Committee and reviews and approves the proposed valuation methodologies for all unlisted investments.

Independence and Effectiveness of the Audit Process

Ernst & Young LLP acted as the Company's independent Auditor for the year ended 31 August 2016. The Committee reviewed the independence of the Auditor and the effectiveness of the audit process prior to recommending their re-appointment to the Board at the forthcoming Annual General Meeting.

With regard to the independence of the Auditor, the Committee reviewed:

- the audit plan for the year, including the audit team and approach to significant risks;
- the Auditor's arrangements for any conflicts of interest;
- the extent of any non-audit services*; and
- the statement by the Auditor that they remain independent within the meaning of the regulations and their professional standards.

*There were no non-audit services provided to the Company during the period. Any indirect services provided to Fidelity which the Company utilised, were terminated before the start of the audit engagement.

With regard to the effectiveness of the audit process, the Committee reviewed:

- the fulfilment by the Auditor of the agreed audit plan;
- the audit report issued by the Auditor on the audit of the Annual Report and Financial Statements for the year ending 31 August 2016; and
- feedback from the Manager.

The Committee concluded that the Auditor continues to remain independent and the audit process remains effective.

Auditor's Appointment and Audit Tenure

In line with EU regulations on mandatory audit rotation, a formal audit tender process was carried out last year and Ernst & Young LLP was appointed as the Company's independent Auditor on 30 November 2015. The Committee has reviewed the Auditor's independence and effectiveness of the audit process prior to recommending their reappointment for a further year. The Auditor is required to rotate audit partners every five years and this is the first year that the audit partner, Matthew Price, has been in place. The Committee will continue to review the Auditor's appointment each year to ensure that the Company is receiving an optimal level of service. There are no contractual obligations that restrict the Company's choice of auditor.

Sharon Brown

Chairman of the Audit Committee
3 November 2016

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

Our opinion on the 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

We have audited the Financial Statements of Fidelity Special Values PLC for the year ended 31 August 2016 which comprise:

- The Income Statement for the year ended 31 August 2016;
- The Balance Sheet as at 31 August 2016;
- The Statement of Changes in Equity for the year ended 31 August 2016; and
- The related notes 1 to 19 to the Financial Statements.

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Overview of our audit approach

Materiality	Overall materiality is £5.8m which represents 1% of Net Asset Value
Audit scope	<ul style="list-style-type: none"> • Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company; and • All audit work was performed directly by the audit engagement team.
Risks of material misstatement	<ul style="list-style-type: none"> • Valuation and existence of investments and derivatives • Incomplete or inaccurate income recognition

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the

efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the Financial Statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Valuation and existence of listed investments and derivatives <i>Refer to the Report of the Audit Committee (page 37); Accounting policies (pages 47 and 48); and Notes 10 and 11 of the Financial Statements (pages 52 to 54).</i> The valuation of the investments held at fair value through profit and loss and derivative instruments at 31 August 2016 was £541.5m (2015: £530.5m) comprising £539.1m (2015: £510.3m) of investments and £2.4m (2015: £20.3m) of derivatives. The investment portfolio is predominantly focused on listed investments and derivatives, the unlisted investments in the current year were valued at £5.9m (2015: £1.7m). The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on portfolio valuation and, therefore, the return generated for Shareholders.	We performed the following procedures: <ul style="list-style-type: none"> • Independently valued 100% of the listed investments and derivatives prices in the portfolio using our bespoke asset pricing tool; • Verified the valuation methodology used for the unlisted securities by the Fidelity's Fair Value Committee was consistent with UK GAAP and International Private Equity and Venture Capital Valuation Guidelines; • Evaluated the assumptions and judgments made by the Fidelity's Fair Value Committee in determining the fair value of the unlisted securities held by the Company; • For those investments priced in currencies other than sterling we have tested the exchange rates to an independent source; and • Agreed 100% of the holdings in the investment portfolio and derivatives to third party confirmations received from the Custodian or Brokers. 	For all listed investments and derivatives, we noted no material differences in market value or exchange rates. We concluded that based on the work performed the valuation ascribed to the Company's unlisted securities were appropriate. We noted no unreconciled differences between the Custodian or Brokers confirmations and the Company's underlying financial records.

Risk	Our response to the risk	What we concluded to the Audit Committee
Incomplete or inaccurate income recognition <i>Refer to the Report of the Audit Committee (page 36); Accounting Policies (pages 46 and 47); and Note 3 of the Financial Statements (page 49)</i> The Company has reported revenue of £18.0m (2015: £16.0m) We focused on the recognition of revenue and its presentation in the Financial Statements given the importance of the total return to Shareholders.	We performed the following procedures: <ul style="list-style-type: none"> • Walkthrough of the revenue recognition process to obtain an understanding of the design of the controls; • Agreed a sample of dividends to the corresponding announcement made by the investee company and agreed cash received to bank statements; • Agreed, for a sample of investee companies, the dividend announcements made by the investee company from an external third party source to the income entitlements recorded by the company; • Agreed material accrued dividends and fixed interest to an independent source and to post year end bank statement to assess the recoverability of these amounts; • Considered the recognition criteria applied to the special dividends received during the year and assessed the appropriateness of the conclusion on the relevant treatment as documented by the Manager; and • For the sample selected, we tested the exchange rate used to translate the dividend income received in foreign currency to an independent source. 	We noted no issues in agreeing the sample of dividend income from equity and derivative securities to and from the independent source and to the bank statements. We noted no issues in agreeing the accrued dividend and fixed interests to an independent source and to the bank statement. We ensured that the accounting treatment adopted for the special dividends was consistent with the evidence provided and our understanding of the underlying circumstances giving rise to the related dividends.

The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope. Taken together, this enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls at the Investment Manager, Administrator and Custodian and changes in the business environment when assessing the level of work to

be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality	£5.8m
Basis	1% of Net Asset Value
Rational	We applied this basis as it is a generally accepted auditing practice for investment trust audits.
Performance materiality for the Financial Statements as a whole	£2.9m
Specific performance materiality for the income statement column	£0.3m
Reporting Threshold	£0.3m

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £5.8m, which is 1% of the Company's Net Asset Value. We believe that Net Asset Value provides the most important financial metric on which Shareholders would judge the performance of the Company and it is a generally accepted auditing practice for investment trust audits.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of materiality, namely £2.89m.

- We have set performance materiality at 50% of materiality, namely £2.89m to reflect this is our first year as Auditor of Fidelity Special Values PLC.
- Given the importance of the revenue/capital distinction for the Company, we also applied a lesser testing threshold of £0.3m for the revenue column of the Income Statement, being 2.5% of profit before taxation.

Reporting threshold

An amount below which identified misstatements is considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give

reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Strategic Report and 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

International Standards on Auditing (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is:</p> <ul style="list-style-type: none"> • Materially inconsistent with the information in the audited Financial Statements; or • Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or • otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • Adequate accounting records have not been kept by the Company, 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. 	We have no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> • The Directors' statement in relation to going concern, set out on page 23, and longer-term viability, set out on page 9; and • The part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. 	We have no exceptions to report.

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

Statement on the Directors' Assessment of the Principal Risks that would threaten the Solvency or Liquidity of the Entity

International Standards on Auditing (UK and Ireland) reporting

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

We have nothing material to add or to draw attention to.

- The Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- The Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and
- The Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Matthew Price

(Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP

Statutory Auditor

London

3 November 2016

Notes:

The maintenance and integrity of the Fidelity International web site is the responsibility of Fidelity International; the work carried out by the Auditor does not involve consideration of these matters and, accordingly, the Auditor accepts no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Income Statement

for the year ended 31 August 2016

	Notes	Year ended 31 August 2016			Year ended 31 August 2015		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments	10	–	43,853	43,853	–	18,355	18,355
Gains on long CFDs	11	–	1,328	1,328	–	21,843	21,843
Losses on short CFDs, futures, options and warrants	11	–	(3,840)	(3,840)	–	(13,239)	(13,239)
Investment and net derivative income	3	18,022	–	18,022	16,044	–	16,044
Other interest	3	127	–	127	155	–	155
Investment management fees	4	(5,186)	–	(5,186)	(5,128)	–	(5,128)
Other expenses	5	(694)	–	(694)	(788)	–	(788)
Foreign exchange gains/(losses)		28	(285)	(257)	(5)	(490)	(495)
Net return on ordinary activities before finance costs and taxation		12,297	41,056	53,353	10,278	26,469	36,747
Finance costs	6	(1,085)	–	(1,085)	(1,063)	–	(1,063)
Net return on ordinary activities before taxation		11,212	41,056	52,268	9,215	26,469	35,684
Taxation on return on ordinary activities	7	(175)	–	(175)	(149)	–	(149)
Net return on ordinary activities after taxation for the year		11,037	41,056	52,093	9,066	26,469	35,535
Return per ordinary share	8	4.15p	15.42p	19.57p	3.39p	9.90p	13.29p

The Company does not have any other comprehensive income. Accordingly the net return on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes on pages 46 to 63 form an integral part of these Financial Statements.

Balance Sheet

as at 31 August 2016
Company number 2972628

	Notes	2016 £'000	2015 £'000
Fixed assets			
Investments	10	539,096	510,256
Current assets			
Derivative instruments	11	16,169	28,496
Debtors	12	4,995	3,172
Amounts held at futures clearing houses and brokers		7,365	47
Fidelity Institutional Liquidity Fund		24,359	500
Cash at bank		2,469	4,682
		55,357	36,897
Creditors			
Derivative instruments	11	(13,783)	(8,204)
Other creditors	13	(2,379)	(1,613)
		(16,162)	(9,817)
Net current assets		39,195	27,080
Net assets		578,291	537,336
Capital and reserves			
Share capital	14	13,532	13,532
Share premium account	15	95,896	95,896
Capital redemption reserve	15	3,256	3,256
Other non-distributable reserve	15	5,152	5,152
Capital reserve	15	450,196	411,356
Revenue reserve	15	10,259	8,144
Total Shareholders' funds		578,291	537,336
Net asset value per ordinary share	16	217.94p	201.61p

The Financial Statements on pages 43 to 63 were approved by the Board of Directors on 3 November 2016 and were signed on its behalf by:



Andy Irvine
Chairman

The Notes on pages 46 to 63 form an integral part of these Financial Statements.

Statement of Changes in Equity

for the year ended 31 August 2016

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other non-distributable reserve £'000	capital reserve £'000	revenue reserve £'000	total Shareholders' funds £'000
Total Shareholders' funds at 31 August 2015		13,532	95,896	3,256	5,152	411,356	8,144	537,336
Repurchase of ordinary shares		-	-	-	-	(2,216)	-	(2,216)
Net return on ordinary activities after taxation for the year		-	-	-	-	41,056	11,037	52,093
Dividends paid to Shareholders	9	-	-	-	-	-	(8,922)	(8,922)
Total Shareholders' funds at 31 August 2016		13,532	95,896	3,256	5,152	450,196	10,259	578,291
Total Shareholders' funds at 31 August 2014		13,532	95,767	3,256	5,152	390,883	10,629	519,219
Issue of ordinary shares		-	129	-	-	603	-	732
Repurchase of ordinary shares		-	-	-	-	(6,599)	-	(6,599)
Net return on ordinary activities after taxation for the year		-	-	-	-	26,469	9,066	35,535
Dividends paid to Shareholders	9	-	-	-	-	-	(11,551)	(11,551)
Total Shareholders' funds at 31 August 2015		13,532	95,896	3,256	5,152	411,356	8,144	537,336

The Notes on pages 46 to 63 form an integral part of these Financial Statements.

Notes to the Financial Statements

1 Principal Activity

Fidelity Special Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2972628, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 Accounting Policies

The Company has for the first time applied the revised UK Generally Accepted Accounting Practice ("UK GAAP"), issued by the Financial Reporting Council ("FRC") and these Financial Statements have been prepared in accordance with FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, effective for accounting periods beginning on or after 1 January 2015. The Company has early adopted the amendments to FRS 102: Fair value hierarchy disclosures, issued by the FRC in March 2016. The Financial Statements have also been prepared in accordance with the revised Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC"), in November 2014.

As a result of the adoption of the revised UK GAAP and SORP presentation formats have been amended where appropriate. The Reconciliation of Movements in Shareholders' Funds has been renamed the Statement of Changes in Equity. A Cash Flow Statement has not been presented. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value. The net return on ordinary activities after taxation for the year and total Shareholders' funds remain unchanged from what was reported under the former UK GAAP basis applied in the 2015 Annual Report and the 2015 figures have not required restatement.

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 investments and derivative instruments. A resolution proposing the continuation of the Company as an investment trust will be put to Shareholders at the AGM on 13 December 2016. The Directors are recommending that Shareholders vote in favour of this resolution. In accordance with this recommendation and given that the Company's assets consist mainly of securities which are readily realisable and that the Directors have a reasonable expectation that the Company has adequate resources to continue for the foreseeable future, the Directors believe that it is appropriate to prepare the Financial Statements on a going concern basis. Accordingly the Financial Statements do not include any adjustments that may arise from a reconstruction or liquidation of the Company. Such adjustments would include expenses of reconstruction or liquidation along with any costs associated with realising the portfolio.

b) Significant accounting estimates and judgements – The Directors make judgements and estimates concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, such as expectations of future events, and are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The judgements required in order to determine the appropriate valuation methodology of level 3 financial instruments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities. These judgements include making assessments of the possible valuations in the event of a listing and other marketability related risks.

c) Segmental reporting – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Income – Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex dividend date. UK dividends are accounted for net of any tax credit. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case. Debt security interest is accounted for on an accruals basis and is credited to the revenue column of the Income Statement.

2 Accounting Policies continued

Derivative instrument income received from dividends on long contracts for difference ("CFDs") and derivative expenses paid as dividends on short CFDs are accounted for on the date on which the right to receive or make the payment is established, normally the ex dividend date. The net amount is credited to the revenue column of the Income Statement.

Interest received on short CFDs, bank deposits and money market funds is accounted for on an accruals basis and is credited to the revenue column of the Income Statement.

f) Management fees and other expenses – Management fees and other expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement.

g) Functional currency and foreign exchange – The Directors, having regard to the Company's share capital and the predominant currency in which its investors operate, have determined its functional currency to be UK sterling. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

h) Finance costs – Finance costs represent interest paid on long CFDs and are accounted for on an accruals basis using the effective interest method. They are charged to finance costs in the revenue column of the Income Statement.

i) Taxation – The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between taxable profit and the accounting profit and is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. It is accounted for using the balance sheet liability method. Deferred taxation liabilities are recognised for all taxable timing differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilised.

j) Dividend paid – Dividends payable to equity Shareholders are recognised when the Company's obligation to make payment is established.

k) Investments – The Company's business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments 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 on that basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments and AIM quoted investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise, at fair value based on published price quotations; and
- Unlisted investments, are investments which are not quoted, or are not frequently traded, and are stated at the Directors best estimate of fair value. The Manager's Fair Value Committee, which is independent of the Portfolio Manager's team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment and recent arm's length transactions in the same or similar investments.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within gains on investments in the capital column of the Income Statement and has disclosed these costs in note 10.

Notes to the Financial Statements continued

2 Accounting Policies continued

l) Derivative instruments – When appropriate, permitted transactions in derivative instruments are used. Derivative transactions into which the Company may enter include long and short CFDs, futures, options and warrants. Derivatives are classified as other financial instruments and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long and short CFDs – the difference between the strike price and the value of the underlying shares in the contract;
- Futures – the difference between contract price and the quoted trade price; and
- Options – the quoted trade price for the contract.

Where transactions are used to protect or enhance income, if the circumstances support this, the income and expenses derived are included in net income in the revenue column of the Income Statement. Where such transactions are used to protect or enhance capital, if the circumstances support this, the income and expenses derived are included: for long CFDs, as gains or losses on long CFDs, and for short CFDs, futures, options and warrants as gains or losses on short CFDs, futures, options and warrants in the capital column of the Income Statement. Any positions on such transactions open at the year end are reflected on the Balance Sheet at their fair value within current assets or creditors.

m) Debtors – Debtors include securities sold for future settlement, accrued income, taxation recoverable and other debtors and pre-payments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

n) Amounts held at futures clearing houses and brokers – These are amounts held in segregated accounts as collateral on behalf of brokers and are subject to an insignificant risk of changes in value.

o) Fidelity Institutional Liquidity Fund – The Company holds an investment in the Fidelity Liquidity Fund plc, a short term money market fund investing in a diversified range of short term instruments. It is a distributing fund and accordingly the interest earned is credited to the revenue column of the Income Statement.

p) Cash at bank – Cash at bank is subject to an insignificant risk of changes in value.

q) Other creditors – Other creditors include securities purchased for future settlement, investment management fees, interest payable and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non-current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

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

- Gains and losses on the disposal of investments and derivative instruments;
- Changes in the fair value of investments and derivative instruments held at the year end;
- 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: Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, 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 Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date the portfolio of the Company consisted of: investments listed on a recognised stock exchange and derivative instruments, contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash, with the exception of unquoted investments with a fair value of £5,860,000 (2015: £1,706,000).

3 Income

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Investment income		
UK dividends	9,327	9,146
UK scrip dividends	95	716
Overseas dividends	3,546	3,331
Overseas scrip dividends	862	281
Debt security interest	384	133
	14,214	13,607
Derivative income/(expenses)		
Dividends received on long CFDs	4,937	3,366
Dividends and interest paid on short CFDs	(1,129)	(929)
	3,808	2,437
Investment and net derivative income	18,022	16,044
Other interest		
Interest received on short CFDs	56	98
Interest received on bank deposits and money market funds	71	57
	127	155
Total investment and net derivative income and other interest	18,149	16,199

4 Investment Management Fees

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Portfolio management services	4,586	4,528
Non-portfolio management services ¹	600	600
Investment management fees	5,186	5,128

¹ Includes company secretarial, fund accounting, taxation, promotional and corporate advisory services.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FIL"). Both companies are Fidelity group companies. FIL charges portfolio management services fees at an annual rate of 0.875% of net assets. Fees are payable quarterly in arrears and are calculated on the last business day of March, June, September and December.

Notes to the Financial Statements continued

5 Other Expenses

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
AIC fees	21	21
Custody fees	17	16
Depository fees	47	45
Directors' expenses	17	11
Directors' fees ¹	154	146
Legal and professional fees	106	85
Marketing expenses	155	132
Printing and publication expenses	89	93
Registrars' fees	42	67
Fees payable to the Independent Auditor for the audit of the Financial Statements ²	24	24
Costs in relation to the ordinary share sub-division	–	127
Sundry other expenses	22	21
	694	788

1 Details of the breakdown of Directors' fees are disclosed in the Directors' Remuneration Report on page 33.

2 The VAT payable on audit fees is included in sundry other expenses.

6 Finance Costs

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Interest paid on long CFDs	1,085	1,063

7 Taxation on Return on Ordinary Activities

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
a) Analysis of the taxation charge for the year		
Overseas taxation recovered	(18)	(62)
Overseas taxation suffered	193	211
Total taxation charge for the year (see Note 7b)	175	149

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 20.00% (2015: 20.58%). A reconciliation of tax at the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Return on ordinary activities before taxation	52,268	35,684
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 20.00% (2015: 20.58%)	10,454	7,344
Effects of:		
Gains on investments not taxable ¹	(8,211)	(5,447)
Income not taxable	(2,761)	(2,766)
Excess management expenses	518	869
Overseas taxation recovered	(18)	(62)
Overseas taxation suffered	193	211
Total taxation charge for the year (see Note 7a)	175	149

¹ The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

c) Deferred taxation

A deferred tax asset of £10,289,000 (2015: £10,914,000), in respect of excess expenses of £57,160,000 (2015: £54,569,000) has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

8 Return per Ordinary Share

	Year ended 31 August 2016			Year ended 31 August 2015		
	revenue	capital	total	revenue	capital	total
Return per ordinary share – basic and diluted	4.15p	15.42p	19.57p	3.39p	9.90p	13.29p

The returns per ordinary share are based on, respectively; the net revenue return on ordinary activities after taxation for the year of £11,037,000 (2015: £9,066,000), the net capital return on ordinary activities after taxation for the year of £41,056,000 (2015: £26,469,000) and the net total return on ordinary activities after taxation for the year of £52,093,000 (2015: £35,535,000), and on 266,183,770 ordinary shares (2015: 267,389,412), being the weighted average number of ordinary shares held outside Treasury in issue during the year.

Notes to the Financial Statements continued

9 Dividends Paid to Shareholders

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Dividends paid		
Interim dividend of 1.00 pence per Ordinary Share paid for the year ended 31 August 2016	2,659	-
Final dividend of 2.35 pence per Ordinary Share paid for the year ended 31 August 2015	6,263	-
Interim dividend of 1.00 pence per Ordinary Share paid for the year ended 31 August 2015	-	2,665
Dividend of 3.30 pence per Ordinary Share paid for the year ended 31 August 2014	-	8,886
	8,922	11,551
Dividend proposed		
Final dividend proposed of 2.70 pence per Ordinary Share for the year ended 31 August 2016	7,145	-
Final dividend of 2.35 pence per Ordinary Share paid for the year ended 31 August 2015	-	6,263
	7,145	6,263

The Directors have proposed the payment of a final dividend for the year ended 31 August 2016 of 2.70 pence per ordinary 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 dividend will be paid on 19 December 2016 to Shareholders on the register at the close of business on 18 November 2016 (ex-dividend date 17 November 2016).

10 Investments

	2016 £'000	2015 £'000
Listed investments	461,651	422,310
AIM quoted investments	64,346	79,920
Specialist Fund Market investments	7,239	6,320
Unlisted investments	5,860	1,706
Total investments at fair value	539,096	510,256
Opening book cost	473,056	401,146
Opening investment holding gains	37,200	57,733
Opening fair value	510,256	458,879
Movements in the year		
Purchases at cost	229,514	243,733
Sales - proceeds	(244,527)	(210,711)
Sales - gains	11,910	38,888
Movement in investment holding gains/(losses)	31,943	(20,533)
Closing fair value	539,096	510,256
Closing book cost	469,953	473,056
Closing investment holding gains	69,143	37,200
Closing fair value	539,096	510,256

10 Investments continued

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Gains on investments		
Gains on sales of investments	11,910	38,888
Investment holding gains/(losses)	31,943	(20,533)
	43,853	18,355
Investment transaction costs		
Transaction costs incurred in the acquisition and disposal of investments, which are included in the gains on sales of investments above, were as follows:		
Purchases transaction costs	880	720
Sales transaction costs	198	144
	1,078	864

The portfolio turnover rate for the year was 46.5% (2015: 46.2%).

11 Derivative Instruments

	Year ended 31.08.16 £'000	Year ended 31.08.15 £'000
Gains on long CFDs		
Gains on long CFD positions closed	16,977	22,578
Movement on investment holding losses	(15,649)	(735)
	1,328	21,843
Losses on short CFDs, futures, options and warrants		
Losses on short CFD contracts closed	(3,738)	(5,648)
Movement on investment holding gains/(losses) on short CFDs	2,124	(2,883)
Gains/(losses) on futures contracts closed	1,987	(7,679)
Movement on investment holding (losses)/gains on futures	(4,381)	2,984
Gains on options contracts closed	168	-
Losses on warrants expired	-	(13)
	(3,840)	(13,239)
Derivative instruments recognised on the Balance Sheet		
	2016 fair value £'000	2015 fair value £'000
Derivative instrument assets	16,169	28,496
Derivative instrument liabilities	(13,783)	(8,204)
	2,386	20,292

Notes to the Financial Statements continued

11 Derivative Instruments continued

At the year end the Company held the following derivative instruments	2016		2015	
	fair value £'000	gross asset exposure £'000	fair value £'000	gross asset exposure £'000
Long CFDs	5,925	152,398	21,574	158,331
Short CFDs	(1,197)	22,127	(3,321)	38,455
Index futures – hedging exposures	(2,342)	(45,606)	2,039	(41,933)
	2,386	128,919	20,292	154,853

12 Debtors

	2016 £'000	2015 £'000
Securities sold for future settlement	3,084	1,223
Accrued income	1,827	1,851
Taxation recoverable	48	76
Other debtors and prepayments	36	22
	4,995	3,172

13 Creditors

	2016 £'000	2015 £'000
Securities purchased for future settlement	911	360
Creditors and accruals	1,468	1,253
	2,379	1,613

14 Share Capital

	number of shares	2016 £'000	number of shares	2015 £'000
Issued, allotted and fully paid Ordinary Shares of 5 pence each				
Held outside Treasury				
Beginning of the year	266,524,480	13,326	-	-
Ordinary Shares issued on the sub-division ¹	-	-	266,249,480	13,312
Ordinary Shares issued from Treasury	-	-	350,000	18
Ordinary Shares repurchased into Treasury	(1,175,000)	(59)	(75,000)	(4)
End of the year	265,349,480	13,267	266,524,480	13,326
Held in Treasury²				
Beginning of the year	4,120,000	206	-	-
Ordinary Shares issued on the sub-division ¹	-	-	4,395,000	220
Ordinary Shares issued from Treasury	-	-	(350,000)	(18)
Ordinary Shares repurchased into Treasury	1,175,000	59	75,000	4
End of the year	5,295,000	265	4,120,000	206
Total share capital		13,532		13,532
Issued, allotted and fully paid Ordinary Shares of 25 pence each				
Held outside Treasury				
Beginning of the year	-	-	54,004,896	13,501
Ordinary Shares repurchased into Treasury	-	-	(755,000)	(189)
Ordinary Shares cancelled on the sub-division ¹	-	-	(53,249,896)	(13,312)
End of the year	-	-	-	-
Held in Treasury²				
Beginning of the year	-	-	124,000	31
Ordinary Shares repurchased into Treasury	-	-	755,000	189
Ordinary Shares cancelled on the sub-division ¹	-	-	(879,000)	(220)
End of the year	-	-	-	-
Total share capital		-		-

1 On 29 June 2015 the existing Ordinary Shares of 25 pence each were sub-divided. Five new Ordinary Shares of 5 pence each were issued for each existing Ordinary Share of 25 pence each. The new Ordinary Shares rank pari passu with each other and are subject to the same rights and restrictions as the shares they replaced. A holding of new Ordinary Shares following the sub-division represents the same proportion of the issued share capital of the Company as the corresponding holding in the existing Ordinary Shares.

2 Shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

Notes to the Financial Statements continued

15 Reserves

The share premium account represents the amount by which the proceeds from the issue of ordinary shares has exceeded the cost of those ordinary shares. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

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

The other non-distributable reserve represents an amount transferred in prior years from the warrant reserve. It is not distributable by way of dividend. It cannot be used to fund share repurchases.

The capital reserve represents realised gains or losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. It can be used to fund share repurchases and it is distributable by way of dividend. The Board have stated that it has no current intention to pay dividends out of capital.

The revenue reserve represents retained revenue surpluses recognised through the revenue column of the Income Statement. It is distributable by way of dividend.

16 Net Asset Value per Ordinary Share

The net asset value per ordinary share is based on net assets of £578,291,000 (2015: £537,336,000) and on 265,349,480 (2015: 266,524,480) ordinary shares, being the number of New Ordinary Shares of 5 pence each held outside Treasury in issue at the year end. It is the Company's policy that shares held in Treasury will only be reissued at a premium to net asset value per share and, therefore, shares held in Treasury have no dilutive effect.

17 Financial Instruments

Management of risk

The Company's investing activities in pursuit of its investment objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are market, performance, discount control, gearing and currency risks. Other risks identified are tax and regulatory and operational risks, including those relating to third party service providers covering investment management, marketing and business development, company secretarial, fund administration and operations and support functions. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. These risks and how they are identified, evaluated and managed are shown in the Strategic Report on page 8.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares and bonds held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise CFDs, futures, options and warrants on listed stocks and equity indices; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

Market price risk

Interest rate risk

The Company finances its operations through its share capital and reserves. In addition, the Company has gearing through the use of derivative instruments. The Board imposes limits to ensure gearing levels are appropriate. 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.

17 Financial Instruments continued

Interest rate risk exposure

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

	2016 £'000	2015 £'000
Exposure to financial instruments that bear interest		
Long CFDs – exposure less fair value	146,473	136,757
Exposure to financial instruments that earn interest		
Short CFDs – exposure plus fair value	20,930	35,134
Amounts held at futures clearing houses and brokers	7,365	47
Fidelity Institutional Liquidity Fund	24,359	500
Cash at bank	2,469	4,682
	55,123	40,363
Net exposure to financial instruments that bear interest	91,350	96,394

Foreign currency risk

The Company does not carry out currency speculation. The Company's net return on ordinary activities after taxation for the year and its 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 functional currency which is UK sterling. The Company can also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs.

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

- Movements in exchange rates affecting the value of investments and derivative instruments;
- Movements in exchange rates affecting short term timing differences; and
- Movements in exchange rates affecting income received.

Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

					2016
currency	investments at fair value £'000	long exposure to derivative instruments ¹ £'000	debtors ² £'000	cash £'000	total £'000
US Dollar	95,995	1,480	120	167	97,762
Euro	32,228	44,410	98	–	76,736
Canadian dollar	6,014	–	44	–	6,058
Other foreign currencies	78	–	15	13	106
UK sterling	404,781	60,902	36,442	2,289	504,414
	539,096	106,792	36,719	2,469	685,076

¹ The exposure to the market of long CFDs after the netting of hedging exposures.

² Debtors comprise debtors and amounts held at futures clearing houses and brokers and in the Fidelity Institutional Liquidity Fund.

Notes to the Financial Statements continued

17 Financial Instruments continued

					2015
currency	investments at fair value £'000	long exposure to derivative instruments ¹ £'000	debtors ² £'000	cash £'000	total £'000
Euro	20,938	59,170	114	–	80,222
US Dollar	41,229	830	110	74	42,243
Other foreign currencies	11,787	–	–	23	11,810
UK sterling	436,302	56,398	3,495	4,585	500,780
	510,256	116,398	3,719	4,682	635,055

1 The exposure to the market of long CFDs after the netting of hedging exposures.

2 Debtors comprise debtors and amounts held at futures clearing houses and brokers and in the Fidelity Institutional Liquidity Fund.

Currency exposure of financial liabilities

The Company finances its investment activities through its ordinary share capital and reserves. The Company's financial liabilities comprise short positions on derivative instruments and other payables. The currency profile of these financial liabilities is shown below:

			2016
currency	short exposure to derivative instruments ¹ £'000	creditors £'000	total £'000
US Dollar	8,642	80	8,722
Other foreign currencies	9,409	37	9,446
UK sterling	4,076	2,262	6,338
	22,127	2,379	24,506

1 The exposure to the market of short CFDs.

			2015
currency	short exposure to derivative instruments ¹ £'000	creditors £'000	total £'000
US Dollar	4,896	–	4,896
Euro	3,014	1	3,015
Other foreign currencies	4,285	–	4,285
UK sterling	26,260	1,612	27,872
	38,455	1,613	40,068

1 The exposure to the market of short CFDs.

17 Financial Instruments continued

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. 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 internal Derivative Risk Measurement and Management Document.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short-term flexibility is achieved by the use of a bank overdraft, if required.

Liquidity risk exposure

The remaining undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £13,783,000 (2015: £8,204,000) and creditors of £2,379,000 (2015: £1,613,000).

Counterparty risk

Certain of the derivative instruments in which the Company may invest are not traded on an exchange but instead will be traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps 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 contract. In accordance with the risk management process which the Manager employs, the Manager will seek to minimise such risk by only entering into transactions with counterparties which 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, by the use of internal and external credit agency ratings, and evaluates derivative instrument credit risk exposure.

For Over The Counter ("OTC") derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 August 2016, £5,933,000 (2015: £19,171,000) was held by the broker, in government bonds in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company and £7,365,000 (2015: £47,000), was held by the Company in cash, shown as amounts held at futures clearing houses and brokers on the Balance Sheet, in a segregated collateral account on behalf of the broker, to reduce the credit risk exposure of the broker.

Credit risk

Financial instruments 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 brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions and derivative instrument contracts and cash at bank.

Notes to the Financial Statements continued

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. 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 using derivatives with the intention of at least partially mitigating losses in the exposures of 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.

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at 31 August 2016, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have decreased the return on ordinary activities after taxation for the year and decreased the net assets of the Company by £228,000 (2015: £233,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 August 2016, a 10% strengthening of the UK sterling exchange rate against foreign currencies, with all other variables held constant, would have decreased the Company's net return on ordinary activities after taxation for the year and decreased the Company's net assets by £12,110,000 (2015: £11,098,000). A 10% weakening of the UK sterling exchange rate against foreign currencies would have increased the Company's net return on ordinary activities after taxation for the year and increased the Company's net assets by £14,802,000 (2015: £13,564,000).

Other price risk – exposure to investments sensitivity analysis

Based on the investments held and share prices at 31 August 2016, an increase of 10% in share prices, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £53,910,000 (2015: £51,026,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Other price risk – net exposure to derivative instruments sensitivity analysis

Based on the derivative instruments held and share prices at 31 August 2016, an increase of 10% in the share prices underlying the derivative instruments, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £8,467,000 (2015: £7,794,000). A decrease of 10% in share prices would have had an equal and opposite effect. Details of the Company's net exposure to derivative instruments are shown in Note 18.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Note 2 (k) and (l), investments and derivative instruments are shown at fair value. In the case of amounts held at futures clearing houses and brokers, Fidelity Institutional Liquidity Fund and cash at bank, book value approximates to fair value due to the short maturity of the instruments. The book value of financial assets and liabilities valued at amortised cost using the effective interest rate method approximates to fair value.

17 Financial Instruments continued

Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its 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 Note 2 (k) and (l). The table below sets out the Company's fair value hierarchy:

	level 1 £'000	level 2 £'000	level 3 £'000	2016 total £'000
Financial assets at fair value through profit or loss				
Investments	527,418	5,818	5,860	539,096
Derivative instruments	–	16,169	–	16,169
	527,418	21,987	5,860	555,265
Financial liabilities at fair value through profit or loss				
Derivative instruments ¹	(2,342)	(11,441)	–	(13,783)

	level 1 £'000	level 2 £'000	level 3 £'000	2015 total £'000
Financial assets at fair value through profit or loss				
Investments	508,550	–	1,706	510,256
Derivative instruments ¹	2,039	26,457	–	28,496
	510,589	26,457	1,706	538,752
Financial liabilities at fair value through profit or loss				
Derivative instruments	–	(8,204)	–	(8,204)

¹ Index futures financial liabilities of £2,342,000 (2015: financial assets of £2,039,000) are valued using quoted prices in active markets for identical assets are classified as level 1. The 2015 amount was disclosed as a level 2 financial asset last year and has been reclassified as level 1 this year.

Notes to the Financial Statements continued

17 Financial Instruments continued

The table below sets out the movements in level 3 financial instruments during the year:

	Year ended 31.08.16 level 3 £'000	Year ended 31.08.15 level 3 £'000
Beginning of the year	1,706	303
Purchases at cost	5,585	-
Investments written off	(6)	-
Transfers out of level 3 ¹	(1,463)	-
Transfers into level 3 ²	-	1,463
Movement in investment holding gains/(losses)	38	(60)
End of the year	5,860	1,706

1 Financial instruments are transferred out of level 3 when they commence trading on an active market.

2 Financial instruments are transferred into level 3 on the date they are suspended or when they have not traded for thirty days.

18 Capital Resources and Gearing

The Company does not have any externally imposed capital requirements. The capital of the Company comprises its gearing, which is managed by the use of derivative instruments, and its issued share capital and reserves as disclosed in the Balance Sheet on page 44. It is managed in accordance with the Company's investment policy in pursuit of its investment objective, both of which are detailed in the Strategic Report on pages 6 and 7. The principal risks and their management are disclosed in the Strategic Report on page 8 and in Note 17.

The Company's gross gearing and net gearing at the end of the year are shown below:

	2016			
	gross asset exposure £'000	% ¹	net asset exposure £'000	% ¹
Investments	539,096	93.2	539,096	93.2
Long CFDs	152,398	26.4	152,398	26.4
Total long exposures before hedges	691,494	119.6	691,494	119.6
Less: Index futures – hedging exposures ²	(45,606)	(7.9)	(45,606)	(7.9)
Long exposures after the netting of hedges	645,888	111.7	645,888	111.7
Short exposures – short CFDs	22,127	3.8	(22,127)	(3.8)
Exposure after the netting of hedges	668,015	115.5	623,761	107.9
Shareholders' Funds	578,291		578,291	
	gross gearing		net gearing	
Gearing³		15.5%		7.9%

1 Exposure to the market expressed as a percentage of Shareholders' Funds.

2 Hedging exposures reduce exposure to the market and gearing.

3 Gearing is the amount by which asset exposure exceeds Shareholders' Funds expressed as a percentage of Shareholders' Funds.

18 Capital Resources and Gearing continued

	2015			
	gross asset exposure £'000	% ¹	net asset exposure £'000	% ¹
Investments	510,256	95.0	510,256	95.0
Long CFDs	158,331	29.4	158,331	29.4
Total long exposures before hedges	668,587	124.4	668,587	124.4
Less: Index futures – hedging exposures ²	(41,933)	(7.8)	(41,933)	(7.8)
Long exposures after the netting of hedges	626,654	116.6	626,654	116.6
Short exposures – short CFDs	38,455	7.2	(38,455)	(7.2)
Exposure after the netting of hedges	665,109	123.8	588,199	109.4
Shareholders' Funds	537,336		537,336	
		gross gearing		net gearing
Gearing³		23.8%		9.4%

1 Exposure to the market expressed as a percentage of Shareholders' Funds.

2 Hedging exposures reduce exposure to the market and gearing.

3 Gearing is the amount by which asset exposure exceeds Shareholders' Funds expressed as a percentage of Shareholders' Funds.

19 Transactions with the Manager and Related Parties

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International ("FIL"). Both companies are Fidelity group companies. Details of the fee arrangements are given in the Directors' Report on page 23 and in Note 4. During the year fees for portfolio management services of £4,586,000 (2015: £4,528,000) and fees for non-portfolio management services of £600,000 (2015: £600,000) were payable to FIL. Non-portfolio management fees include company secretarial, fund accounting, taxation, promotional and corporate advisory services. At the Balance Sheet date, fees for portfolio management services of £810,000 (2015: £786,000) and fees for non-portfolio management services of £100,000 (2015: £100,000) were accrued and included in other payables. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £155,000 (2015: £132,000). At the Balance Sheet date £63,000 (2015: £100,000) for marketing services was accrued and included in other payables.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable benefits relating to reasonable travel expenses payable to the Directors are given in the Directors' Remuneration Report on pages 33 and 34. The Directors received compensation of £187,000 (2015: £170,000). In addition to the fees and taxable benefits disclosed in the Directors' Remuneration Report, this amount includes £18,000 (2015: £15,000) of employers' National Insurance Contributions paid by the Company.

Financial Calendar

The key dates in the Company's calendar are:

31 August 2016 – Financial Year End

November 2016 – Announcement of results for the year ended 31 August 2016

13 December 2016 – Annual General Meeting

19 December 2016 – Payment of Final Dividend

28 February 2017 – Half-Year end

April 2017 – Announcement of results for the Half-Year ending 28 February 2017

May 2017 – Payment of Interim Dividend

CHANGE OF AGM VENUE

Please note that the AGM at 11.30 am on 13 December 2016 will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD rather than at our usual venue which is undergoing refurbishment.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at **Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD** on 13 December 2016 at 11.30 am for the following purposes:

1. To receive and adopt the Annual Report and Financial Statements for the year ended 31 August 2016.
2. To declare that a final dividend for the year ended 31 August 2016 of 2.70 pence per ordinary share be paid to Shareholders on the register as at close of business on 18 November 2016.
3. To re-elect Mr Andy Irvine as a Director.
4. To re-elect Mrs Sharon Brown as a Director.
5. To re-elect Mr Dean Buckley as a Director.
6. To re-elect Mr Nigel Foster as a Director.
7. To re-elect Ms Nicky McCabe as a Director.
8. To approve the Directors' Remuneration Report (excluding the section headed The Remuneration Policy set out on page 32) for the year ended 31 August 2016.
9. To reappoint Ernst & Young LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.
10. To authorise the Directors to determine the Auditor's remuneration.

To consider and, if thought fit, to pass the following special business resolutions of which Resolutions 11 and 14 will be proposed as ordinary resolutions and Resolutions 12 and 13 as special resolutions.

Authority to allot shares and dis-application of pre-emption rights

Resolutions 11 and 12 will, if approved, authorise the Directors to allot a limited number of new ordinary shares (or sell any ordinary shares which the Company elects to hold in Treasury) 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 3 November 2016. The Directors will only issue new ordinary shares, or dispose of ordinary shares held in Treasury, under this authority in order 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. Any ordinary shares held in Treasury would only be re-issued at net asset value per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance net asset value per share.

11. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £1,323,122 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 3 November 2016) and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with Treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, 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. All previous unexpired authorities are revoked, but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

12. THAT, subject to the passing of Resolution 11 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) for cash pursuant to the authority given by the said Resolution 11 and/or to sell ordinary shares held by the Company as Treasury shares for cash, as if Section 561 of the Act did not apply to any such allotment, or sale, provided that this power shall be limited:

- a) to the allotment of equity securities or sale of Treasury shares up to an aggregate nominal amount of £1,323,122 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company (including Treasury shares) as at 3 November 2016); and
- b) in either case, by the condition that allotments of equity securities or sales of Treasury shares may only be made pursuant to this authority 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.

Notice of Meeting continued

Authority to repurchase shares

Resolution 13 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 (excluding Treasury Shares) on 3 November 2016 for immediate cancellation or for retention as Treasury Shares, at the determination of the Board. Once shares are held In Treasury, the Directors may only dispose of them in accordance with the relevant legislation by subsequently selling the shares for cash or cancelling the shares. 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.

13. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of Ordinary Shares of 5 pence each in the capital of the Company (the "shares") provided that:

- a) the maximum number of shares hereby authorised to be purchased shall be 40,569,607;
- b) the minimum price which may be paid for a share is 5 pence;
- c) the maximum price (excluding expenses) which may be paid for each share is the higher of:
 - i) 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; and
 - ii) the stipulated by Regulatory Technical Standards adopted by the European Commission pursuant to Article 5(6) of the Market Abuse Regulation (EU) No. 596/2014;
- 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.

Continuation of the Company

Resolution 14 is an ordinary resolution which relates to the continuation of the Company.

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

By Order of the Board

FIL Investments International

Secretary

3 November 2016

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a proxy or proxies to attend and to speak and vote instead of him. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed and must be returned to the Registrars at the address on the form to arrive not later than 11.30 am on 9 December 2016. 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 Asset Services, PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF 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 11.30 am on 9 December 2016. 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 11.30 am on 9 December 2016.

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 close of business on 9 December 2016.
7. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in note 2 above does not apply to Nominated Persons. The right described in that paragraph can only be exercised by members of the Company.
8. If the Chairman, as a result of any proxy appointments, is given discretion as to how the votes which are the subject of those proxies are cast and the voting rights in respect of those discretionary proxies, when added to the interests in the Company's securities already held by the Chairman, result in the Chairman holding such number of voting rights that he has a notifiable obligation under the Disclosure and Transparency Rules, the Chairman will make the necessary notifications to the Company and the Financial Conduct Authority. As a result, any member holding 3% 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 Conduct 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 close of business on 9 December 2016. If the meeting is adjourned then, to be so entitled, members must be entered on the Register of Members by close of business 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 3 November 2016 (the latest practicable date prior to the publication of this document) the Company's issued share capital consisted of 270,644,480 ordinary shares (excluding

Treasury Shares) carrying one vote each. Therefore, the total number of voting rights in the Company as at 3 November 2016 was 264,624,480. As at 3 November 2016, there were 6,020,000 shares held in Treasury by the Company.

11. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
12. Shareholders and any proxies or representatives they appoint understand that by attending the meeting they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
13. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on its website a statement setting out any matter relating to the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or any circumstance connected with an Auditor of the Company ceasing to hold office since the previous meeting at which the Annual Report and Financial Statements were laid. The Company may not require the Shareholders requesting any such website publication to pay its expenses in complying with such requests. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. 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. No Director has a service contract with the Company.
15. 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.fidelityinvestmenttrusts.com.

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

Shareholder Information

Investing in Fidelity Special Values PLC

As Fidelity Special Values PLC is a company listed on the London Stock Exchange, you can buy its shares through a stockbroker, share shop or bank. Fidelity also offers a range of options, so that you can invest in the way that is best for you. Details of how to invest can be found on Fidelity's website at

www.fidelityinvestmenttrusts.com

Contact Information

Existing Shareholders should contact the appropriate administrator using the contact details given below. This may be Capita Asset Services, the Company's Registrar, or Fidelity, or it may be another platform or administrator of your choice. Links to the websites of major platforms can be found online at **www.fidelityinvestmenttrusts.com**

Holders of ordinary shares on the main share register

Capita Asset Services, Registrar to Fidelity Special Values PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone: **0871 664 0300** (calls cost 12p per minute plus network extras. If you are outside the United Kingdom, call **+44 371 664 0300**. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm Monday to Friday, excluding public holidays in England and Wales).

Email: shareholderenquiries@capita.co.uk

Details of individual shareholdings and other information can also be obtained from the Registrar's website:

www.capitaassetservices.com

Fidelity Platform Investors

Fidelity, using the freephone numbers given below, or by writing to: UK Customer Service, Fidelity International, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.

Website: **www.fidelity.co.uk/its**

Private investors: call free to **0800 41 41 10**, 9.00 am to 6.00 pm, Monday to Saturday.

Financial advisers: call free to **0800 41 41 81**, 8.00 am to 6.00 pm, Monday to Friday.

General enquiries

General enquiries should be made to the Secretary, at the Company's registered office: FIL Investments International, Investment Trusts, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP. Email: investmenttrusts@fil.com. Telephone: **01732 361 144**.

Website: **www.fil-fidelityinvestmenttrusts.com**

Online Shareholder Services – Share Portal

Through the website of the Registrar, Capita Asset Services, 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 to 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 Asset Services website: **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 0300** (calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call **+44 371 664 0300**. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 9.00 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Capita share dealing services

You can make use of a low cost share dealing service provided by Capita Asset Services to buy or sell shares. Further information is available at **www.capitadeal.com**, or by telephoning **0371 664 0454** (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open 8.00 am to 4.30 pm, Monday to Friday excluding public holidays in England and Wales). The Capita Share Dealing Services allows you 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

The Dividend Re-investment Plan offers a convenient way for Shareholders to build up their shareholding by using your dividend money to purchase additional shares in the Company. The plan is provided by Capita Asset Services, a trading name of Capita IRG Trustees Limited which is authorised and regulated by the Financial Conduct Authority.

For more information and an application pack call **0371 664 0381** between 9.00 am and 5.30 pm Monday to Friday. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the UK will be charged at the applicable international rate. Alternatively you can email: shares@capita.co.uk or log on to **www.capitashareportal.com**

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 in the Fidelity Investment Trust Share Plan will receive statements and valuations twice a year.

Managers and Advisors

Alternative Investment Fund Manager (AIFM/the Manager)

FIL Investment Services (UK) Limited
Oakhill House
130 Tonbridge Road
Hildenborough
Tonbridge
Kent
TN11 9DZ

Portfolio Manager, Secretary and Registered Office

FIL Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP
Email: investmenttrusts@fil.com

Independent Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Company Information

The Company was launched on 17 November 1994. The original subscription price was £1 for each ordinary share of 25 pence each. Following the sub-division of ordinary shares on a five for one basis on 29 June 2015, the Company's share capital now comprises ordinary shares of 5 pence each and the restated original subscription price is 20 pence for each ordinary share.

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 PLC is FSV.L, the SEDOL is 0332510 and the ISIN is GB0003325106.

Lawyer

Dickson Minto W.S.
Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Banker and Custodian

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

Depository

J.P. Morgan Europe Limited
25 Bank Street
London
E14 5JP

Financial Adviser and Stockbroker

Cenkos Securities plc
6,7,8 Tokenhouse Yard
London
EC2R 7AS

Registrar

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Net Asset Value ("NAV") Information

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

UK 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, acquired at the time of the Company's launch, is 100.00 pence. All UK individuals under present legislation are permitted to have £11,100 of capital gains in the current tax year 2016/2017 (2015/2016: £11,100) before being liable for capital gains tax. Capital gains tax is charged at 18% and 28% dependant on the total amount of taxable income.

Alternative Investment Fund Manager's Disclosure

In compliance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Board have appointed FIL Investment Services (UK) Limited ("FISL") (a Fidelity group company) as the Company's Alternative Investment Fund Manager ("AIFM"). FISL has delegated the portfolio management and company secretarial function to FIL Investments International (another Fidelity group company). Details of the Management Agreement can be found in the Directors' Report on page 23.

The table below discloses information required by the Alternative Investment Fund Managers Regulations 2013.

Function	AIFM Role and Responsibility	AIFMD Disclosure
Investment management	<p>The AIFM provides portfolio management of assets and investment advice in relation to the assets of the Company. It has delegated this function to FIL Investments International.</p> <p>The Board remains responsible for setting the investment strategy, investment policy and investment guidelines and the AIFM operates within these guidelines.</p>	Details of the Company's investment objective, strategy and investment policy, including limits, are on pages 6 and 7.
Risk management	<p>In its capacity as AIFM, FIL Investment Services (UK) Limited has a responsibility for risk management for the Company which is in addition to the Board's corporate governance responsibility for risk management.</p> <p>The Company has a Risk Management Process Document which is agreed with the Board and demonstrates that risk management is separated functionally and hierarchically from operating units and demonstrates independence safeguards. The Manager maintains adequate risk management systems in order to identify, measure and monitor all risks at least annually under AIFMD. The Manager is responsible for the implementation of various risk activities such as risk systems, risk profile, risk limits and testing.</p> <p>The Board, as part of UK corporate governance, remain responsible for the identification of significant risks and for the ongoing review of the Company's risk management and internal control processes.</p>	<p>The AIFM has an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and this is regularly reviewed by the Board.</p> <p>The Board remains responsible for the Company's system of internal control and for reviewing its effectiveness. Further details can be found in the Strategic Report on page 8 and in Note 17 to the Financial Statements on pages 56 to 62.</p>
Valuation of illiquid assets	The Directive requires the disclosure of the percentage of the AIF's assets which are subject to special arrangements arising from their illiquid nature. Further, any new arrangements for managing the liquidity of the Company must be disclosed.	Not Applicable.
Leverage	<p>The Company uses leverage to increase its exposure primarily to UK-listed companies and currently holds derivative instruments. The AIFM has set maximum levels of leverage that are reasonable. It has implemented systems to calculate and monitor compliance against these limits and has ensured that the limits have been complied with at all times.</p> <p>A definition of leverage is included in the Glossary of Terms on page 72.</p>	<p>The maximum leverage limits are 1.80 for the Gross Method of calculating leverage and 1.50 for the Commitment Method. There have been no changes to the maximum level of leverage that the Company may employ during the year.</p> <p>At 31 August 2016, actual leverage was 1.31 for the Gross Method and 1.16 for the Commitment Method.</p>
Liquidity management	The AIFM, in consultation with the Board, maintains a liquidity management policy which is considered at least annually.	No new arrangements for managing the liquidity of the Company have been made. Further details can be found in Note 17 on page 59.
Remuneration of the AIFM	The AIFM operates under the terms of Fidelity International's Global Remuneration Policy. This ensures that the AIFM complies with the requirements of the FCA's Remuneration Code (SYSC19A); the AIFM Remuneration Code (SYSC19B) and the BIPRU Remuneration Code (SYSC19C).	Details of Fidelity International's Global Remuneration Policy can be found at www.fidelityinternational.com/global/remuneration/default.page .

The AIFM's Annual Report is available to Shareholders on request. Please contact the Company Secretary whose address can be found on page 69.

Glossary of Terms

AIF

Alternative Investment Fund. The Company is an AIF.

AIFM

Alternative Investment Fund Manager. The Board has appointed FIL Investment Services (UK) Limited to act as the Company's AIFM/the manager.

AIFMD

The Alternative Investment Fund Managers Directive is a European Union Directive implemented on 22 July 2014.

Benchmark Index

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

Capital Gains Tax (CGT)

The tax which you may have to pay if you sell your shares at a profit.

Collateral

Asset provided as security for the unrealised gain or loss under a contract for difference.

Contract for Difference (CFD)

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

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](#).

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 market prices, where available otherwise at published price quotations;
- Unlisted investments – valued using an appropriate valuation technique in the absence of an active market;
- [Futures](#) and [options](#) – valued at the quoted trade price for the contract; and
- [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

[Gearing](#) describes the level of the Company's exposure and is expressed as a percentage of [Shareholders' funds](#). It reflects the amount of exposure the Company uses to invest in the market. It can be obtained through the use of bank loans, bank overdrafts and derivatives, in order to increase the Company's exposure to market price movements. The Company uses two key measures of [gearing](#):

- **Gross gearing** is the total of all long exposures, plus short exposures and less exposures hedging the portfolio, expressed as a percentage of [Shareholders' funds](#).
- **Net gearing** is the total of all long exposures, less short exposures and less exposures hedging the portfolio, expressed as a percentage of [Shareholders' funds](#).

Gross Asset Exposure

[Gross Asset Exposure](#) measures the exposure to market price movements as a result of owning shares, [derivative](#) instruments and fixed-interest securities.

Hedging

A strategy aimed at minimising or eliminating the risk or loss through adverse movements, normally involving taking a position in a [derivative](#) such as a [future](#) or an [option](#).

Glossary of Terms continued

Leverage

Leverage as defined in the AIFMD is any method by which an AIFM increases the exposure of an AIF it manages whether through borrowing cash or securities, or leverage embedded in derivative positions or by any other means. **Leverage** is measured in terms of exposure and is expressed as a ratio of **net asset value**. There are two measures of calculating **leverage**.

- The Gross Method which does not reduce exposure for **hedging**;
- The Commitment Method which reduces exposure for **hedging**.

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.

Ongoing Charges

Ongoing charges are the regular, recurring operational expenses of the Company. Finance costs, taxation and the costs of buying and selling investments are excluded. The ongoing charges figure is calculated annually and expresses ongoing charges as a percentage of the average daily net asset values for the reporting year.

Options

An **option** is a contract which gives the right but not the obligation to buy or sell an underlying asset at an agreed price on or before an agreed date. **Options** may be calls (buy) or puts (sell) and 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, up to 10% of issued share capital.

Premium

If the share price of the Company is higher than 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 a given period from the investments:

- **Revenue Return** reflects the dividends and interest from investments and other income net of expenses, finance costs and taxation;
- **Capital Return** reflects the return on capital, excluding any revenue returns; and
- **Total Return** reflects the aggregate of revenue and capital return.

Shareholders’ Funds

Shareholders’ funds are also described as “**net asset value**” and represent the total value of the Company’s assets less the total value of its liabilities.

Total Return Performance

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

Treasury Shares

Ordinary shares of the Company that have been repurchased by the Company and not cancelled but held in Treasury. These shares do not pay dividends, have no voting rights and are excluded from the **net asset value** per share calculation.



Fidelity, Fidelity International, the Fidelity International logo and **F** symbol are trademarks of FIL Limited

Printed on FSC® certified paper.

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

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

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

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

