

Fidelity Special Values PLC

Annual Report

For the year ended 31 August 2006

Company number 2972628

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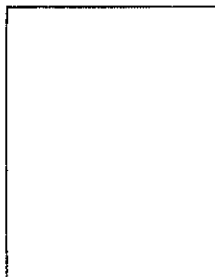
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Contents

Objective and Highlights	1
Financial Summary	2
Chairman's Statement	3
Manager's Review	6
Forty Largest Investments	8
Distribution of the Portfolio	10
Summary of Performance	12
Attribution Analysis	15
Corporate Information	16
Board of Directors	16
The Board's Policies	18
Directors' Report	19
Business Review	19
General	21
Corporate Governance Statement	26
Directors' Remuneration Report	32
Financial Calendar	33
Independent Auditors' Report	34
Financial Statements	35
Notice of Meeting	51
Investing in Fidelity Special Values PLC	53

Objective and Highlights



Alex Hammond-Chambers,
Chairman

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

Performance

NAV Return	+18.7%
Share Price Return	+15.3%
FTSE All-Share Index	+13.1%
Equity Shareholders' Funds	£357.9m
Market Capitalisation	£340.8m
Dividend per Share	3.75p

Capital Structure: Ordinary shares of 25p, 65,356,053 in issue

Standardised Performance (on a total return basis) %

	01/09/2001 to 31/08/2002 ¹	01/09/2002 to 31/08/2003 ¹	01/09/2003 to 31/08/2004 ¹	01/09/2004 to 31/08/2005 ¹	01/09/2005 to 31/08/2006
NAV (debt at par)	-10.9	+20.4	+19.9	+35.8	+19.4
Share price	-11.4	+18.8	+16.2	+30.4	+16.0

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

¹ Restated as shown in Note 20 to the financial statements

Financial Summary

	2006	2005 restated ³
Assets at 31 August		
Total assets employed ¹	£397.92m	£341.44m
Shareholders' funds	£357.92m	£301.44m
Potential gearing	11.2%	13.3%
Actual gearing	4.8%	12.3%
NAV per share	547.65p	461.23p
Dividend for the year to 31 August – see page 42		
Final dividend per ordinary share	3.75p	2.75p
Share price data at 31 August		
Share price year end	521.50p	452.25p
high	555.00p	456.00p
low	425.50p	348.00p
(Discount)/premium at year end	(4.8)%	(1.9)%
high	1.6%	5.5%
low	(9.2)%	(3.8)%
Total Returns (includes reinvested income) for the year to 31 August (%)		
NAV	+19.4	+35.8
Share price	+16.0	+30.4
FTSE All-Share Index	+16.8	+24.1
Total expense ratios ²		
Shareholders' funds	1.49%	1.52%

1 Total assets less liabilities, excluding fixed term loan liabilities

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

3 Restated as shown in Note 20 to the financial statements

Sources: Fidelity and Datastream

(Past performance is not a guide to future returns)

Chairman's Statement

THE YEAR'S RESULTS: (CAPITAL ONLY)

NAV: + 86.4p TO 547.7p (+ 18.7%)
SHARE PRICE: + 69.3p TO 521.5p (+ 15.3%)

I am pleased to be able to report another year of good returns for shareholders. It is our express purpose to make money for shareholders and, although we may not do so every year, we would expect to do so over a longer time period. We have done this in all but one year of the Company's twelve year life and this year, in which the net asset value rose by 18.7% to 547.7p and the share price by 15.3%, was no exception.

As I have said in these statements in the past, although our main focus must be to make money for shareholders, we also aim to do better than our peer group investment trusts and than the market as a whole. It is important, otherwise why would shareholders want to invest in the Company? In respect of our peer group we did not fare as well as we have in the past. The size weighted average net asset value of the Association of Investment Companies (our trade group has changed its name recently) of the UK Growth sector rose by 23.0% (on a total return basis) and we ranked seventh out of fifteen. However our net asset value did outperform the market, as measured by our benchmark, the FTSE All-Share Index, which rose 13.1% (on a capital return basis).

The main event in the portfolio during the course of the year was the decision to raise the level of cash for a period so that it effectively reduced our borrowings and to buy a three month put option on the market with an exposure equivalent to one quarter of the Company's assets. The Manager was concerned that the market might fall for a period and so took out the insurance of the put option, which in the light of market movements worked well during the period it was held. Other details of activity in the Company's portfolio are contained in the Manager's Review and the contribution of individual stocks and sectors to the year's returns are shown on page 15.

The change in the share price of course is the capital return that shareholders actually experience. The main influence on it is the change in the net asset value but the other important influence is the change in the premium or discount at which the shares sell in relation to the underlying net asset value. During the course of the year the discount rose from 1.9% to 4.8%, which accounted for the fact that shareholders' capital return was 3.4% less than that of the net asset value, being 15.3%. The Board believes that the main reason for the rise in the discount is the quite natural concern by investors about who will succeed Anthony Bolton as the investment manager of the Company's portfolio (more of which later).

Total return performance for the year to 31 August 2006

Prices rebased to 100

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

LONGER TERM: 5 YEAR RETURNS: (CAPITAL ONLY)

NAV: + 276.9p TO 547.7p (+ 102.3%)
SHARE PRICE: + 231.5p TO 521.5p (+ 79.8%)

For reasons explained later, the Board of Directors believes that the appropriate period over which to judge the performance of the Company is five years. Over the last five years – which started just 11 days before what is popularly referred to as 9/11 and which presaged a sharp short term fall in stock markets around the world – the net asset value of the ordinary shares rose by over 100% while the share price rose by nearly 80%. One and a half years of the period overlapped with the last part of the dot.com bear market, leading up to the invasion of Iraq, while since then there has been a considerable recovery in stock markets around the world. These returns, which amount to 15.1% per annum and 12.4% per annum respectively, are excellent in their own right. Compared to what one might have received on a bank deposit (4.6%), with our peer group (10.7% pa (NAV) and 11.2% pa (share price)) and with the market (6.4%) these returns are also good. The Board would like once again to pay tribute to the Manager, Anthony Bolton and to his colleagues who are responsible for this performance. Well done and on behalf of shareholders: thank you.

Chairman's Statement

DIVIDEND: 3.75p PER SHARE

Your Board is recommending a dividend of 3.75p per share to shareholders, which, if approved, will be paid on 18 December 2006 to those on the register on 17 November 2006. As outlined in the Board's Policies, the dividend depends on the net income earned in any given year and that in turn depends on what stocks happen to be in the portfolio that year; no attempt is made to invest in stocks just because of their dividend yield. This last year net income amounted to £2,385,000 which allows the Board to recommend the dividend mentioned above.

CHANGE OF PORTFOLIO MANAGER

Shareholders may have read about the portfolio management changes of the Fidelity Special Situations Fund, the open ended investment company that Anthony Bolton manages. It is of interest to us because Anthony manages both its and our portfolio on a like for like basis and because he will be stepping down from portfolio management at the end of 2007. The Fund has been split into two parts with Anthony managing one of the two halves; initially, its portfolio will be different from that of your Company but he intends to bring them back into line gradually. Your Board will have an involvement in that appointment and it has every confidence that his successor will do an excellent job in managing the portfolio.

ANNUAL REPORT CHANGES

As detailed in the Company's interim report and in Note 1 to the financial statements on page 39, UK Generally Accepted Accounting Practice is converging with International Financial Reporting Standards. The key changes are: (i) holdings of shares are now valued at their bid prices whereas before they were valued at the mid price, half way between the bid and offer prices; (ii) the dividend the Board is recommending to shareholders is no longer treated as a liability in the balance sheet.

The Business Review

New company law requires public companies to produce a Business Review within the Annual Report, forming part of the Directors' Report. In simple terms it requires the Board to provide a fair review of the business of the Company, a description of its principal risks and uncertainties, an analysis of its performance and development and those key performance indicators ("KPIs") that give both the Board and shareholders a guide to the performance of the Company.

The fair review of the business and an analysis of its performance has always been and continues to be provided in the Chairman's Statement, the Manager's Review and the accompanying tables and charts which show details of the portfolio, its distribution amongst

different sectors, the Company's ten year record and the main influences on the returns earned for shareholders (contained in the Attribution Analysis).

Earlier this year the Board and Management attended an Away Day Board meeting, the main purpose of which was the consideration of longer term issues without the need for the red tape formalities which so dominate regular Board meetings these days. Amongst other issues the Board considered the longer term investment environment, the Business Review generally and the issues of risk and KPIs in particular. In the most general of terms the Board viewed the progress and effects of globalisation and of technology and the development of the emerging economies as being forces that were bullish for stocks and shares on a long term basis although there were risks attached.

In assessing risks the Board divided them into two parts – those risks external to the business over which the Board had no measure of influence or control and the internal risks over which it did have some influence or control. In relation to the external risks the Board identified a number of risks which could affect the value of stocks and shares generally and the returns that shareholders earn specifically. They included the possibility of recession and its effect on corporate profits (particularly in America), rising inflation associated with easy money policies and rising commodity prices, protectionism, a disease pandemic, further destabilisation in the Middle East, and finally financial crises which could emerge out of mishandling monetary policy, something going very wrong in China or India, a collapse of the American dollar and/or a banking crisis born from excesses in the worlds of property, hedge funds and/or private equity. The best way of mitigating these risks is to have a well diversified portfolio, which, with just under 150 different stocks and no sector excessively weighted, we have. In relation to internal risks, these can be subdivided into those of mismanagement of the portfolio and those of maladministration. Our investment policies should provide some protection against the former and our governance procedures against the latter.

In addressing the matter of KPIs the Board has broken them into two parts – those by which shareholders will judge the Company, reflecting the returns that they have earned and those which reflect the internal management of the Company. First of all the Board has assumed that the choice of KPIs is based on the interests of long term shareholders and in that respect it views five years to be as short a period as can be argued to be long term. So although the Business Review requires that KPIs illustrate progress and returns on an annual basis, the Board regards five

Chairman's Statement

years as a better indication of performance.

In fact the section on KPIs in the Directors' Report illustrates them on a one, three and five year basis.

In looking at the reasons lying behind shareholders' returns, the Board monitors the progress of the net asset value, the change in the discount, and the dividend, which together account for the return that shareholders earn. In the first place it compares what a shareholder could have safely made with a deposit in a bank and then with those made by competitors and the market. In reviewing the performance of the Company the most important KPI is clearly the return of the net asset value per share and it too is compared with the latter two benchmarks.

Annual General Meeting

The Annual General Meeting of Shareholders will be held this year at 11.30am on 14 December at Fidelity's offices at 25 Cannon Street, near St Paul's Cathedral. May I repeat what is written in our Corporate Governance Statement, namely that "the Annual General Meeting is the pivotal point in the relationship between the Board of Directors and shareholders and is the occasion when the Board accounts for itself in public meeting". We do therefore encourage as many shareholders as possible to attend – both individual and institutional – as it gives you the chance to air your views, hear other shareholders' views or ask any questions you may wish in front of the body of shareholders. At the formal meeting Anthony Bolton will review the past year and look at the prospects for the current one.

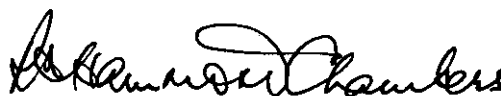
OUTLOOK: ENCOURAGING

The world's economy is undergoing a development not unlike that which it experienced during the latter part of the nineteenth century as the two powerful forces of globalisation and technological advance created a surge in the living standards around the world and in the creation of wealth. They have been the main driving forces over the last twenty five or so years, with the fall of the Berlin Wall in 1989 resulting in the abandonment of global socialism as well as the inclusion of a large number of countries in the global economy, most notably of all China. Both forces have had a marked effect on the rate of inflation in the world, driving down the cost of producing and thence the prices of goods and services. It is thus that the world has been able to experience good economic growth in a low inflationary and low interest rate environment. In terms of the longer term span of economic history, we can be said to be living in a sweet spot.

There are and always have been risks associated with such progress and some of them were outlined earlier

in this statement. They are not insignificant and not to be brushed aside. But to add to the effects of globalisation and technological advance has been the development of corporate governance. Although it has unquestionably become heavy-handed and costly in recent times, it has focused boards of directors on the importance of corporate profits not only to shareholders but also to economies and investment in people, research and infrastructure. So it is that the combination of these three forces has helped produce good returns for investors in equities in most countries. It is the bullish long term scenario to which we subscribe but with caution in the short term.

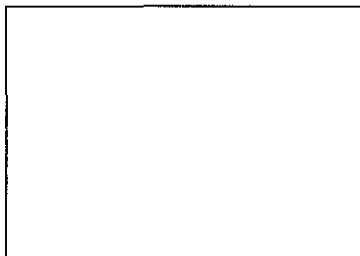
The course of progress will not always run smoothly. There is reason to be cautious about the immediate future as the world, including the UK, copes with some of the consequences of success (including higher indebtedness, inflation and interest rates), of religious rivalry (with armed conflict involved) and frankly of a fairly mature economic cycle. To add to global uncertainties, the UK has the added uncertainty of the future of its political parties and thence leadership. For these amongst other reasons our cautiousness has led us to our prudent investment policy. Central banks are reining in their easy money policies of the post dot.com boom/bust era and it may be that for a little while markets will tread water. However the long term story remains a powerful one, one that should provide excellent opportunities for investment and profit. Your Company has a good and experienced Manager and – much as we have in the past – we would expect good returns from it in the medium to longer term.



Alex Hammond-Chambers
Chairman

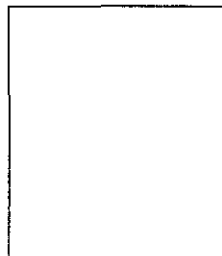
2 November 2006

Manager's Review



Fidelity Investments International

The Company is managed by Fidelity Investments International (which is authorised and regulated by the Financial Services Authority). Fidelity Investments International is part of the Fidelity International Limited group which, as at 30 June 2006, had total assets under management exceeding £149 billion.



Anthony Bolton (age 56)

is a director of Fidelity Investment Management Limited. He began his career as an investment analyst at Keyser Ullmann and subsequently worked as a fund manager at Schlesinger Investment Management Services. He joined Fidelity International in 1979, at the time when its unit trust operation was set up. In addition to Fidelity Special Values PLC, he also manages the Fidelity Special Situations Fund (a Fund of Fidelity Investment Funds ICVC).

UK MARKET REVIEW

- The UK market rose strongly for much of the period, but fell in May and June, before recovering in July and August.
- Company takeovers and mergers helped the performance of UK shares.
- Despite signs of a slowing economy, growth could reach 3.0% by the end of the year.
- Inflation rose above the Bank of England's ("BoE") target between June and August 2006.
- The BoE raised interest rates, to 4.75%, for the first time in 2 years.

The UK stock market rose by 16.8% over the 12 months, despite signs of a worsening economic situation and volatility towards the end of the period (amid unrest in the Middle East and inflationary concerns). Strong corporate earnings and a high level of takeovers and mergers boosted the performance of UK shares, which reached five-year highs on a number of occasions. In terms of market capitalisation, mid caps were the best performers (at 26.4%), followed by large and small caps (at 14.4% and 12.3% respectively). At sector level, mining and industrial metal stocks rose significantly – amid higher metal prices – although they have been buffeted by market volatility in recent months.

Unemployment continued to rise, reaching 5.5% in the three months to June – its highest rate for four years. This was largely a result of slowing economic growth and higher energy bills, which pressured companies into trimming their labour costs. Nonetheless, the UK

economy showed signs of recovery towards the end of the review period, with a revival in the housing market seeing mortgage approvals in July at their highest level since January 2006. Meanwhile, retail sales grew at their fastest pace in eighteen months. The National Institute of Economic and Social Research reported that the UK economy grew by 0.8% in the three months to the end of July, exceeding the projected rate of 0.6%.

Inflation rose during the year to finish in August at 2.5%, well above the BoE's target rate of 2.0% for the fourth month in a row. As a result, the BoE increased interest rates by 0.25% to 4.75%. In spite of this rise, UK bond markets outperformed their global, US and European counterparts during the period under review.

PORTFOLIO MANAGER'S REVIEW

During the 12 months to 31 August 2006, the Company's portfolio returned 19.4% (total return basis), outperforming a strong FTSE All-Share Index at 16.8%.

Over the review period, exposure to the oil & gas producers sector continued to be among the portfolio's largest absolute sector positions. Although the sector itself experienced poor returns, the Company's performance within the segment contributed to returns, due mainly to the Manager's strong stock selection. Notwithstanding, the Manager began to reduce exposure to the oil & gas sector towards the end of the period. The portfolio also held significant absolute sector positions in the media, pharmaceutical & biotechnology and travel & leisure industries.

Manager's Review

Conversely, at the end of the review period, the portfolio had no exposure to the general industrials, tobacco and aerospace & defence sectors.

At the beginning of the second half of the year the Manager became cautious about the market and, as referred to in the Chairman's Statement at that time acquired a put option which was sold before expiry, impacting positively on portfolio return. Towards the end of the period the Manager again became more cautious about the market environment. Value opportunities among small and medium-sized companies became scarce as a consequence of their three-year bull run, and investor appetite for risk increased despite fundamental indicators proving otherwise. Thus, exposure to FTSE 100 companies continued to rise during the period, as the Manager was able to identify attractively-valued opportunities within the larger segment of the market. Meanwhile, a portion of the Company's portfolio continued to be invested outside the UK stock market; this strategy added considerable value to the overall return, as the Manager continued to discover rewarding opportunities in Europe and the Asia Pacific region.

Stock selection and market exposure in the real estate sector combined with security selection among oil & gas producers were the key drivers behind the Company's outperformance. Meanwhile, prudent stock picking in the pharmaceutical & biotechnology sector also contributed to overall returns.

OUTLOOK

The BoE has predicted in its quarterly inflation report that prices will increase this year at a faster pace than previously anticipated, reinforcing investor expectations of further interest rate rises. Inflation could rise to as high as 2.7% at the end of 2006, before falling back towards the 2.0% target in two years' time. Nevertheless, the BoE has raised its expectations for economic growth, predicting that it would exceed 3.0% in the second half of 2006, before slowing to 2.5% by the end of 2008. According to the International Monetary Fund, inflated house prices, higher energy costs and the potential effects of immigration on supply and demand could all have an impact on the UK economy. Despite the rise in interest rates, the outlook for UK stocks remains positive. Attractive valuations, continuing merger and acquisition activity and high commodity prices are expected to support share prices going forward.

From a portfolio perspective, the Manager continues to find potential value in selected large cap stocks, which are comparatively more attractive given the performance of small and medium-sized companies over the last three years. However, the number of stocks that meet his investment criteria has fallen.

This partly reflects the fact that valuations continue to become compressed; low valued stocks have generally been recognised by the market and re-rated upwards, while the premium of more highly valued stocks has fallen. Furthermore, many traditional value stocks, which have performed well for some time, look expensive in comparison to historical norms.

Although the Manager focuses on stock picking rather than a top-down macroeconomic approach, he believes that, after three and a half years of a bull market a more sustained correction than witnessed in May is probable. In addition, there are still potential risks in the form of Middle Eastern instability and further interest rate rises on the horizon. In this light, the Manager will be searching for lower risk stocks, such as low valued growth and defensive stocks that exhibit superior quality or have a better return on capital.

Fidelity Investments International

2 November 2006

Forty Largest Investments as at 31 August 2006

Holding	Market Value £'000	% ¹
BP Oil and gas company	22,948	5.8
Reed Elsevier International publishing company	19,418	4.9
Tesco Food retailer	16,697	4.2
Roche Swiss pharmaceutical company	15,986	4.0
ITV Media company	15,979	4.0
AstraZeneca Pharmaceutical company	15,654	3.9
GlaxoSmithKline Pharmaceutical company	14,200	3.6
Reuters International news and information organisation	10,508	2.6
BG Oil and gas company	10,068	2.5
Standard Chartered International banking group	9,485	2.4
Top 10 Holdings (2005: 33.1%)²	150,943	37.9
British Sky Broadcasting Broadcasting company	9,471	2.4
Amlin Insurance company	9,079	2.3
Sainsbury Food retailer	8,554	2.1
William Hill Betting company	8,165	2.1
Statoil Norwegian oil and gas company	8,101	2.0
Rank Leisure and entertainment company	7,056	1.8
Old Mutual Insurance and financial services company	6,883	1.7
EMI Music recording and publishing company	6,320	1.6
Sportingbet Global on-line and telephone sports betting business	6,167	1.6
National Grid Transco Utilities company	6,161	1.5
Top 20 Holdings (2005: 48.8%)²	226,900	57.0

Forty Largest Investments as at 31 August 2006

Holding	Market Value £'000	% ¹
Expro International Global supplier of oilfield services	6,085	1.5
Cairn Energy Oil and gas company	5,973	1.5
Land Securities Property company	5,708	1.5
British Land Property company	5,101	1.3
Bayer German pharmaceutical and chemical company	4,357	1.1
HSBC International banking group	4,129	1.0
Premier Farnell Electronic components and equipment distributing company	4,104	1.0
Vodafone Mobile telecommunications company	4,038	1.0
Imperial Energy Oil and gas company	3,830	1.0
Hiscox Insurance company	2,831	0.8
DNB Norway's largest bank	2,638	0.7
Gcap Media Radio stations operator	2,633	0.7
SOCO Oil and gas company	2,474	0.6
Fresenius Global healthcare company	2,467	0.6
Provident Financial International personal finance and insurance company	2,464	0.6
Melrose Engineering group	2,193	0.6
London Clubs Casino and gaming group	2,182	0.5
Slough Estates Property company	2,182	0.5
CNOOC Chinese state-owned oil company	2,135	0.5
Avis International car rental company	2,109	0.5
Top 40 Holdings (2005: 64.5%)²	296,533	74.5
Other Holdings (105)	79,850	20.1
	376,383	94.6
Cash & other net current assets	21,540	5.4
	397,923	100.0

1 % total assets less current liabilities, excluding fixed term loan liabilities

2 2005 numbers have been restated as shown in Note 20 to the financial statements

The portfolio turnover rate for the year was 76% (2005: 68%)

Distribution of the Portfolio¹

as at 31 August

	UK	Overseas	Total	2005 ²	Index ³
Equities (including convertibles)					
Consumer Services					
Media	18.0	0.7	18.7	13.0	3.4
Travel & Leisure	7.3	0.3	7.6	7.6	3.1
Food & Drug Retailers	6.3	0.4	6.7	0.4	2.8
General Retailers	1.8	0.2	2.0	3.5	2.3
	33.4	1.6	35.0	24.5	11.6
Financials					
Non-life Insurance	4.8	-	4.8	6.4	0.7
Real Estate	4.1	-	4.1	7.6	2.5
Banks	3.4	0.7	4.1	7.2	17.6
Life Insurance	2.5	0.7	3.2	1.2	3.4
General Financial	1.9	0.1	2.0	4.3	2.1
Equity Investment Trusts	0.1	-	0.1	0.6	2.3
	16.8	1.5	18.3	27.3	28.6
Oil & Gas					
Oil & Gas Producers	12.3	2.6	14.9	21.9	15.8
Oil Equipment, Services & Distribution	2.1	-	2.1	-	0.2
	14.4	2.6	17.0	21.9	16.0
Health Care					
Pharmaceuticals & Biotechnology	8.1	4.1	12.2	7.8	8.5
Health Care Equipment & Services	-	0.6	0.6	0.7	0.4
	8.1	4.7	12.8	8.5	8.9
Industrials					
Support Services	2.3	0.1	2.4	2.5	3.3
Industrial Engineering	0.7	-	0.7	0.9	0.5
Industrial Transportation	0.3	-	0.3	0.8	0.2
Aerospace & Defence	-	-	-	0.5	1.8
Construction & Materials	-	-	-	3.8	0.6
Electronic & Electrical Equipment	-	-	-	-	0.4
General Industrials	-	-	-	-	0.4
	3.3	0.1	3.4	8.5	7.2
Basic Materials					
Chemicals	-	1.1	1.1	0.5	1.0
Mining	0.6	0.2	0.8	1.1	6.4
Forestry & Paper	-	0.1	0.1	0.1	-
Industrial Metals	-	-	-	0.1	0.2
	0.6	1.4	2.0	1.8	7.6

Distribution of the Portfolio¹ as at 31 August

	UK	Overseas	Total	2005 ²	Index ³
Equities (including convertibles)					
Utilities					
Gas, Water & Multiutilities	1.5	0.2	1.7	-	2.6
Electricity	-	0.2	0.2	0.5	1.9
	1.5	0.4	1.9	0.5	4.5
Telecommunications					
Mobile Telecommunications	1.1	-	1.1	-	3.6
Fixed Line Telecommunications	0.5	-	0.5	1.5	1.5
	1.6	-	1.6	1.5	5.1
Consumer Goods					
Food Producers	0.5	-	0.5	0.5	2.3
Household Goods	0.3	-	0.3	0.3	2.0
Beverages	0.1	0.1	0.2	1.0	2.5
Personal Goods	-	0.2	0.2	0.1	0.2
Leisure Goods	0.1	-	0.1	-	-
Tobacco	-	-	-	-	2.4
Automobiles & Parts	-	-	-	0.6	0.1
	1.0	0.3	1.3	2.5	9.5
Technology					
Software & Computer Services	0.9	0.1	1.0	1.1	0.7
Technology Hardware & Equipment	0.3	-	0.3	1.2	0.3
	1.2	0.1	1.3	2.3	1.0
Total Equities - 2006	81.9	12.7	94.6	99.3	100.0
Cash & Other Net Assets			5.4	0.7	-
Total - 2006			100.0	100.0	100.0
Total Equities - 2005	82.4	16.9	99.3	100.0	

1 Distribution of the portfolio shown as a percentage of total assets less liabilities, excluding fixed term loan liabilities

2 2005 numbers have been restated as shown in Note 20 to the financial statements

3 FTSE All-Share Index

Summary of Performance

Historical Record as at 31 August	2006	2005 ¹	2004	2003	2002	2001	2000	1999	1998	1997	1996
Shareholders' funds (£m)	357.9	301.4	216.9	136.2	105.4	109.0	91.0	72.7	59.0	54.3	50.1
NAV (p)	547.65	461.23	341.94	285.93	238.87	270.76	238.93	191.44	150.52	137.74	130.36
Share price (p)	521.50	452.25	348.00	300.50	254.50	290.00	223.50	162.50	133.00	123.00	125.50
(Discount)/premium to NAV (%)	(4.8)	(1.9)	1.8	5.1	6.0	7.1	(6.5)	(15.1)	(11.6)	(12.0)	(3.7)
Revenue return per ordinary share (p)	3.65	2.76	1.55	0.91	1.39	3.04	2.69	4.36	2.70	2.00	0.22
Dividends per ordinary share (p)	3.75	2.75	1.40	1.00	1.40	2.50	2.30	3.30	1.80	1.80	nil
Costs of running Company (total expense ratio) (%)	1.49	1.52	1.42	1.75	1.70	1.64	1.84	1.89	1.71	1.84	1.80
Actual gearing ratio (%)	4.8	12.3	14.8	17.1	17.2	9.7	13.6	22.6	21.3	22.8	19.3
NAV performance (%) (total return basis)	+19.4	+35.8 ¹	+19.9 ¹	+20.4 ¹	-10.9 ¹	+14.4	+26.3	+29.6	+8.7	+7.2	+18.7
Share price performance (%) (total return basis)	+16.0	+30.4	+16.2	+18.8	-11.4	+31.0	+39.4	+24.9	+9.2	-2.0	+25.5
Index performance (%) (total return basis)	+16.8	+24.1	+10.8	+4.6	-18.7	-17.3	+11.6	+23.5	+10.0	+22.2	+15.8

1 Restated as shown in Note 20 to the financial statements

The Company was launched on 17 November 1994 with one warrant attached to every five shares. The original subscription price for each share was £1. The Company is a member of The Association of Investment Companies ("AIC") from whom general information on investment trusts can be obtained by telephoning 020 7282 5555 (email address: enquiries@theaic.co.uk).

PRICE INFORMATION

The mid-market price of the ordinary shares is published daily in the Financial Times under the heading "Investment Trusts". The ordinary share price is also published in The Times, The Daily Telegraph and The Independent. You can also obtain current price information by phoning FT Cityline on 0906 843 then 4782. The Reuters code for Fidelity Special Values is FSV.L.

NAV INFORMATION

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

CAPITAL GAINS TAX

Your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of ordinary shares and warrants, acquired at the time of the Company's launch, is 94.95p. All UK individuals under present legislation are permitted to have £8,800 of capital gains in the current tax year: 2006/2007 (£8,500 2005/2006 tax year) before being liable for capital gains tax. Capital gains are treated as the top slice of income and will be taxable at 10% for taxpayers up to the starting rate limit, 20% for basic rate taxpayers or 40% for higher rate taxpayers.

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

Summary of Performance

Total return performance from launch to 31 August 2006

Prices rebased to 100

NAV and share price in pence from launch to 31 August 2006

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

Summary of Performance

Total return performance relative to the benchmark index from launch to 31 August 2006

Prices rebased to 100

Share price premium/discount to NAV from launch to 31 August 2006

Based on figures at month end only

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

Attribution Analysis

Analysis of change in the year		pence	Top 5 and bottom 5 sector contributions (pence per share)
Starting NAV at 1 September 2005		461.23	
Impact of Index		77.26	
Impact of Stock Selection		10.47	
Impact of Net Gearing		10.01	
Impact of Other		-11.32	
Closing NAV at 31 August 2006		547.65	
10 Highest contributors (pence per share)			10 Highest detractors (pence per share)

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

Corporate Information

Manager, Secretary and Registered Office

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

Financial Advisers and Stockbrokers

UBS Limited
1 Finsbury Avenue
London
EC2M 2PA

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Bankers and Custodian

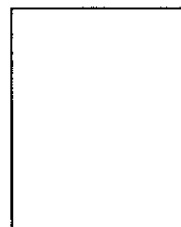
JPMorgan Chase Bank (London Branch)
125 London Wall
London
EC2Y 5AJ

Registrars

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

Lawyers

Slaughter and May
One Bunhill Row
London
EC1Y 8YY



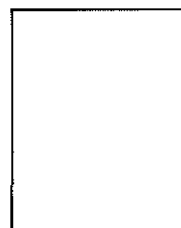
Alex Hammond-Chambers^{1,2}

(Chairman of the Board, the Management Engagement Committee and the Nomination and Remuneration

Committee) (age 64,

date of appointment: 18 October 1994).

Former chairman of Ivory & Sime plc, he is chairman of American Opportunity Trust PLC, Hansa Trust PLC and Aurora Investment Trust plc, and a director of International Biotechnology Trust Plc, Montanaro European Smaller Companies Investment Trust plc and a number of other investment companies. He is chairman of Dobbies Garden Centres plc. He worked at Ivory & Sime for 27 years, being responsible for the management of a number of its investment trusts, before becoming its chairman in 1985. He retired from Ivory & Sime at the end of 1991 and has become a professional non-executive director, specialising in investment trusts and investment companies and is a former chairman of the Association of Investment Companies (AIC).

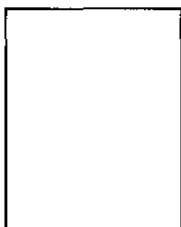


Lynn Ruddick^{1,2}

(Chairman of the Audit Committee) (age 54, date of appointment: 22 July 2005) is a Fellow of the Chartered Association of Certified Accountants and a

member of the Securities Institute. She is a non-executive director of British Assets Trust plc, a member of the Investment Committee of the Pearson Group Pension Plan and a trustee of the Scottish & Newcastle Pension Plan. She is also a member of the Investment Committee of Western Provident Association and chairman of their Pension Fund Trustee Board. She worked for many years as an investment manager in both Edinburgh and London and is a former chairman of the Investment Committee of the National Association of Pension Funds. Before retiring from Merrill Lynch Investment Managers in 2004 she headed their investment trust business unit.

Board of Directors



Sir Richard Brooke, Bt^{1,2}
(age 68, date of appointment: 18 October 1994) is a former partner of Rowe & Pitman, a member of the International Capital Markets Advisory

Committee to the board of directors of the New York Stock Exchange, a vice-chairman of the Board of Governors of the National Association of Securities Dealers, a member of the board of directors of SG Warburg Group and J O Hambro & Company Limited and of a number of investment trust companies. He is currently a Director of Avocet Mining plc. His career has included all aspects of securities work including stockbroking, investment banking, investment management and the management and administration of businesses in the UK and worldwide.



Douglas Kinloch Anderson^{1,2}
(age 67, date of appointment: 18 October 1994) is chairman of Kinloch Anderson Limited and a director of Martin

Currie Portfolio Investment Trust PLC and F&C Private Equity Trust PLC. He has been president of the Edinburgh Chamber of Commerce and a member of the Scottish Committee of the Institute of Directors. He was previously a board member of the Scottish Tourist Board, Master of the Edinburgh Merchant Company and he was national president of the Royal Warrant Holders Association. His career has included wide experience in manufacturing, retailing and exporting, particularly to Europe, North America and the Far East.



Nicky McCabe²
(age 37, date of appointment: 9 December 2004) is Chief Operating Officer ("COO"), Investment Management at Fidelity. Nicky became

COO for the investment management team in January 2003, having joined Fidelity in 1999 as head of investment administration. As COO for investments, she is responsible for all aspects of operational, systems and project support for the portfolio managers, analysts and traders. Prior to joining Fidelity, Nicky spent 6 years at HSBC Asset Management where she ran Performance Measurement, Institutional Marketing Support and Operations. Nicky also spent 2 years at McKinsey & Co. as a strategy consultant.

All of the Directors are non-executive and, with the exception of Ms McCabe, independent.

1 Member of the Audit Committee and Management Engagement Committee

2 Member of the Nomination and Remuneration Committee

The Board's Policies

INTRODUCTION

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

INVESTMENT GOAL: CAPITAL GROWTH

The Board of Directors recognises that investing in equities is a long term process and that there will be good and bad years in the Company's returns to shareholders. However, our primary objective is to make money for you, the shareholders, over the long term. In our assessment of the progress towards that end, we consider a five year time span to be the most appropriate.

DIVIDEND POLICY: SHORT TERM VARIABLE, LONG TERM GROWTH

The portfolio is managed actively in the pursuit of capital gains. In any one year therefore the dividend income received from investments will vary according to what stocks and shares are owned during the period and so therefore will the net income earned and the dividend paid in that year.

INVESTMENT POLICY: SPECIAL SITUATIONS

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

- An anomaly within an industry;
- Turnaround or recovery situation within the company concerned;
- Unrecognised growth relative to the price of the shares;
- Undervalued asset situation;
- The potential for some merger and acquisition activity.

Although the portfolio consists predominantly of holdings in UK companies, up to 20% can be, and often is, invested in the shares of overseas companies.

CURRENCIES: NO HEDGING

It is not the policy of the Board to hedge the underlying currencies of the holdings in the shares of overseas companies in the portfolio but rather to take the currency risk into consideration when making the investment.

GEARING POLICY: BORROWINGS OF 15-20 PER CENT OF SHAREHOLDERS' FUNDS IN NORMAL CIRCUMSTANCES

The Board takes the view that long term capital gains can be enhanced by the judicious use of long term borrowings – commonly referred to as gearing. In times when we do not regard stockmarket values generally as being either very over or undervalued, our policy is to maintain borrowings of between 15 and 20 per cent of shareholders' funds.

LIQUIDITY POLICY: FULLY INVESTED IN NORMAL CIRCUMSTANCES

In normal times it is the Board's policy to be fully invested – by which we mean at least 95 per cent of the Company's assets are invested in stocks and shares. However, we are aware of our duty to be concerned about preservation of our shareholders' capital as well as that of making capital gains; if the stocks and shares generally are deemed to be very overvalued or if the Manager finds it difficult to identify many attractively priced opportunities for investment – such that the chances of losing money in the medium term (three to five years) are considerable – liquidity (uninvested cash) would rise to a level which at least matches the amount of borrowings. It is not our policy to own shares for the sake of it.

INVESTMENT IN OTHER INVESTMENT TRUSTS: LIMIT OF 15%

The Board has set a limit of 15% on the proportion of the Company's total assets that can be invested in the securities of other investment trust companies. 0.09% of the Company's total assets were held in this way as at 31 August 2006.

CORPORATE ACTIVISM

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

PREMIUM/DISCOUNT MANAGEMENT: ENHANCING SHAREHOLDER VALUE

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

Directors' Report

The Directors have pleasure in presenting their report which also incorporates the Business Review together with the audited financial statements of the Company for the year ended 31 August 2006.

The Company was incorporated in England and Wales as a public limited company on 27 September 1994 under the name of Fidelity Special Values PLC with the registered number 2972628.

ACTIVITIES AND STATUS

A review of the year's activities and an indication of likely future developments are given in the Chairman's Statement on pages 3 to 5 and in the Manager's Review on pages 6 and 7.

The Company carries on business as an investment trust and was approved as such by the Inland Revenue under Section 842 of the Income and Corporation Taxes Act 1988 ("ICTA") for the accounting period ended 31 August 2004. The Inland Revenue has granted provisional approval for the accounting period ended 31 August 2005, although this approval may be subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. The Directors are of the opinion that, since that date, the Company has conducted its affairs in a manner which will satisfy the conditions for continued approval as an investment trust under that Section.

The Company is registered as an investment company as defined in Section 266 of the Companies Act 1985 and operates as such. It is not a close company and has no employees.

BUSINESS REVIEW

INTRODUCTION

The Company is required to comply with the extended reporting requirements, within the Directors' Report, of the 'Business Review', which have been introduced to comply with the requirements of the EU Modernisation Directive. The Directive requires a fair review of the Company and a description of the principal risks and uncertainties faced and includes an analysis of the performance of the Company, both during the financial year and the position at the year end, taking into account its objective, strategy and risks and how these are measured using Key Performance Indicators ("KPIs").

OBJECTIVE & STRATEGY

The primary objective of your Company is to enhance shareholder value, achieved through long term capital growth. The Company aims to achieve this with an actively managed portfolio of special situation investments, consisting primarily of securities listed or traded on the London Stock Exchange.

As is stated in the Board's Policies, which precede the Directors' Report, the Board considers five years to be the most appropriate time span over which to make assessments. However, the Business Review requires an annual assessment of the Company's progress and so both sets of KPIs have been provided.

While making money is the most important objective, we are aware that shareholders invest in the shares of Fidelity Special Values because Fidelity Investments International is the Manager and we therefore monitor our returns against those of competing investment trust companies. Finally, we are aware that shareholders invest in the Company's shares because of the belief that they will earn better returns than those of the stock market as a whole. So returns are also monitored against an index which reflects the performance of the stock market, the FTSE All-Share Index.

SUMMARY REVIEW OF RESULTS FOR 2006

As outlined and explained in the Chairman's Statement, in the Manager's Review and in the accounts, the shareholders' net assets rose by 18.7% to £376.9 million, having a net asset value per share of 547.65p per share. As a consequence of the income generated in the portfolio and of the expenses incurred during the year the income available for paying a dividend amounted to 3.65p per share. The Board is recommending to shareholders a dividend of 3.75p per share, utilising a small amount of the Revenue Reserve.

During the second half of the year, investments were sold, raising nearly enough cash to match the borrowings with the result that the actual gearing level declined from 12.3% to 4.8%.

KEY PERFORMANCE INDICATORS ("KPIs")

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

KPIs

The primary objective of enhancing shareholder value is measured by the total returns of the share price; the KPI against which it is compared is the return on a deposit account at a bank or building society (regarded as a risk free investment alternative).

The KPIs for the secondary objectives of higher returns than the competition and the market are the comparisons with their returns.

There are three components to the returns involved in the primary objective of enhancing shareholder value: the net asset value, dividends and the change in the discount/premium at which your shares trade to net asset value.

Directors' Report

BUSINESS REVIEW continued

The components of the change in the net asset value include the movements in the level of the stock market, the contribution of stock selection, gearing, currencies, share buybacks/share issues, income and costs. These are analysed by the Board and the relevant KPIs involve comparisons of the net asset value against competing investment trusts and the FTSE All-Share Index (the Company's benchmark), shown below.

A further component part of the net asset value that the Directors monitor is that of the expenses of managing the Company. Those expenses, expressed as a proportion of the net asset value (known as the total expense ratio or "TER") are compared with the net asset value returns.

The increase/decrease in the discount/premium is a component of the enhancement of shareholder value and the KPI compares it with that of investment trusts generally and of competing ones specifically.

SHAREHOLDER TOTAL RETURNS

Share price total return	1 year return (%)	3 years return (%)	5 years return (%)
Share price total return ¹	16.0	75.8	85.0
Risk free investment ²	4.6	14.2	23.1
FTSE All-Share Index	16.8	60.5	36.6
Peer group ³	23.0	86.6	68.2

COMPANY TOTAL RETURNS

Net asset value total return	1 year return (%)	3 years return (%)	5 years return (%)
Fidelity Special Values	19.4	94.4	108.5
FTSE All-Share Index	16.8	60.5	36.6
Peer group ³	19.2	79.1	63.4

ADDITIONAL KPIs

(Discount)/Premium	2006 (%)	2003 (%)	2001 (%)
Fidelity Special Values	(4.8)	5.1	7.1
Peer group ³	(4.2)	(6.7)	(6.5)
Total Expense Ratio	2006 (%)	2003 (%)	2001 (%)
Fidelity Special Values	1.49	1.75	1.64
	1 year return (%) Ann.	3 years return (%) Ann.	5 years return (%) Ann.
Fidelity Special Values (NAV)	19.4	24.8	15.8

1 Total return including net dividends reinvested

2 UK Interbank 3m Bid rate

3 AIC UK Growth sector, source Fundamental Data

Sources: Fidelity, Datastream and Fundamental Data

ATTRIBUTION ANALYSIS

Detail of the attribution analysis is shown on page 15.

RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

When considering the risks and uncertainties faced by shareholders it is important to remember that the Board regards the timescale to achieve the overriding objective as the long term. The longer the timescale the greater the influence of the underlying profits and dividends and the less the influence of valuations on share prices. It is why equities generally are likely to provide positive returns for investors over the longer term but not necessarily over the short term and why therefore the Board assumes a long term perspective in determining the objective, strategy, risks and KPIs.

Subsidiary to the primary risk that shareholder value will not be enhanced, the Board has identified secondary risks, external and internal, that could impact this primary objective, as follows:

External risks

1 Stock market

Stock market risks include the risk to profits when the economy performs poorly, corporate profits do not prosper and shareholders suffer for economic reasons and valuation risks, particularly during periods of excessive stock market speculation and gains.

At its "Away Day" in February the Board of Directors discussed the macro risks that it believed were inherent in markets and concluded that bird flu, protectionism, conflict in the Middle East, a major problem in the unregulated markets of hedge funds and private equity companies, a collapse of the US dollar and mismanagement of monetary policy were all risks that needed to be monitored. Markets may go down – even over extended periods of time.

2 Share price

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

3 Discount

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

Internal risks

The internal risks that a shareholder assumes are the risks of mismanagement, whether in the form of poor portfolio management, poor governance, poor operations, poor financial management, poor compliance, poor administration etc.

1 Portfolio

The risks of poor asset management are those of mismanaging the portfolio. The risks include poor stock selection, speculation in the shares of companies, speculation in derivatives, excessive concentration in any individual stock market, individual sector of the stock market or individual stock; investment in companies operating, wholly or in part, in a country whose currency declines severely; mismatching the currencies behind the assets and liabilities and/or borrowing at rates of interest higher than are likely to be earned by the underlying portfolio of assets.

The Board of Directors does not believe that it is in shareholders' interests to manage the portfolio through formulaic volatility risk control constraints as it does not regard volatility as a risk for long term shareholders. The Board believes that most of the risks that might result in long term shareholder value not being enhanced are unquantifiable. The reduction of risk is best achieved by having appropriate diversification within the portfolio and to that end your Board reviews the portfolio with the Manager on a regular basis.

2 Governance, operational, financial, compliance, administration etc

While we believe that the likelihood of poor governance, operations, financial management, compliance, administration etc by other third party service providers is low, the financial consequences could be serious, including the loss of Section 842 status which allows the portfolio to be managed without incurring capital gains tax and any associated reputational damage to the Company and thence to the discount/premium at which its shares sell. Your Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Details of this process are provided in the Corporate Governance Statement within this Annual Report.

The financial instruments risks faced by the Company are shown in Note 19 to the financial statements on pages 47 to 49.

GENERAL

SHARE CAPITAL

There were no issues of shares during the year to 31 August 2006 and no shares have been issued since the year end.

As at 31 August 2006, the total number of shares in issue was 65,356,053.

The authority to issue shares and disapply pre-emption rights, granted by shareholders at the Annual General Meeting held on 8 December 2005, expires on 14 December 2006 and therefore resolutions to renew the authority will be put to shareholders for approval at the Annual General Meeting to be held on that date.

At the Annual General Meeting held on 8 December 2005 the Company's shareholders passed a special resolution which granted the Directors authority to purchase up to 9,796,872 ordinary shares in the market for cancellation. No shares were repurchased for cancellation during the year (2005: nil). Since the year end 281,250 shares have been repurchased and cancelled. The authority expires on 14 December 2006 and a special resolution to renew the authority will therefore be put to shareholders for approval at the forthcoming Annual General Meeting.

POLITICAL AND CHARITABLE DONATIONS

The Company has not made any political or charitable donations during the year (2005: nil).

PAYMENT OF CREDITORS

The Company's principal supplier is the Manager which is paid in the month following the end of each calendar quarter, in accordance with the terms of the Management Agreement (detailed below).

The Company's policy for the year to 31 August 2007 (2006: same) for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction to ensure that the supplier is aware of these terms and to abide by the agreed terms of payment. The Company did not have any trade creditors in the year under review and to date (2005: nil). Other suppliers are paid in accordance with the individual payment terms agreed with each supplier.

Directors' Report

GENERAL continued

MANAGEMENT COMPANY

The Manager, Fidelity Investments International, a subsidiary of Fidelity International Limited, provides management, accounting, administrative and secretarial services to the Company under an agreement (the "Management Agreement") entered into on 6 February 2006.

The Management Agreement replaced that between the same parties dated 19 October 1994 and provides for an annual fee of an amount equal to 0.875 per cent (plus VAT) of net assets per annum for investment management and £600,000 for non-portfolio management services (previously 0.95 per cent (plus VAT) of the value of the Company's total assets under management for investment management and non-portfolio management services) payable quarterly in arrear and calculated as of the last business day of March, June, September and December in each year. In computing the asset value, the value of any investment in any fund which is managed by the Manager or an associate of the Manager is excluded.

The Management Agreement will continue unless and until terminated by either party giving to the other not less than six months' notice in writing (previously twelve months' notice in writing). The Management Agreement may, however, be terminated without compensation if the Company is liquidated in 2008, or in any subsequent year thereafter, pursuant to the procedures laid down in the Articles of Association of the Company. The Management Agreement may also be terminated forthwith as a result of a material breach of the Agreement or on the insolvency of the Manager or the Company. In addition, the Company may terminate the Agreement by sixty days' notice if the Manager ceases to be a subsidiary of Fidelity International Limited.

The Management Engagement Committee met on 21 July 2006 and 2 November 2006 and reviewed the performance of the Manager over one and five years. The Committee concluded that it was in the interests of shareholders that the Management Agreement should continue.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity ISA under an agreement dated 17 April 1996. The amount payable for these services for the year to 31 August 2006 is £158,060 (2005: £120,094). If the expenses incurred by the Manager for the provision

of these services is less than this amount, the balance is carried forward to cover the cost of the provision of these services in future years.

An amount of £972,191 (2005: £1,605,587) was due to the Manager under the above agreements at 31 August 2006 and is included in other creditors in Note 11 on page 44.

Fidelity has adopted a broker segmentation policy, which has reduced the number of brokers used, and allows it to concentrate on those brokers who, in its opinion, offer the best service in terms of overall execution. These brokers are Fidelity's 'core' brokers. At the same time, the Manager evaluates the research provided by other brokers and uses some of them for their research. These brokers are called Secondary State Research firms ("SSRs").

As a consequence of the policy, the 'core' brokers earn a larger percentage of the commission paid. These 'core' brokers pay away some of the increased commission earned to the SSRs, to compensate them for the research provided to Fidelity. Under FSA regulations this type of payment from one broker to another is currently treated as 'softing'. The Manager's soft commission policy complies with the UK regulations. Fidelity adopts a best execution policy that applies to all transactions in all instruments, regardless of the fund or account or location of the trading desk.

The Manager has an arrangement with certain brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce transaction costs. Amounts received by the Company under this arrangement are credited to capital. In the year to 31 August 2006 £141,000 was received (2005: £68,000).

The Company participates in the Manager's interfund programme whereby Fidelity's traders, on occasion, identify situations where one fund managed by Fidelity is buying the same security that another fund is selling. If a trader can confirm that it would be in the interests of both accounts to execute a transaction between them rather than in the market then an interfund transaction is executed.

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

Directors' Report

SOCIALLY RESPONSIBLE INVESTMENT

The Manager believes that high standards of corporate social responsibility ("CSR") make good business sense and have the potential to protect and enhance investment returns. Consequently, the 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.

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

The Manager does not screen out companies from its investment universe purely on the grounds of poor social, environmental or ethical performance. Instead, it adopts a positive engagement approach whereby it discusses these issues with the management of the companies in which it invests on behalf of its clients. The information gathered during these meetings is used both to inform the Manager's investment decisions and also to encourage company management to improve procedures and attitudes. The Manager strongly believes that this is the most effective way to improve the attitude of business towards CSR and the Board endorses this view.

DIRECTORS

Details of the Directors who served in the year to 31 August 2006 are set out on pages 16 and 17.

All Directors served throughout the year to 31 August 2006. All Directors are subject to re-election on an annual basis. As indicated in last year's report, Mr Laurenson resigned on 31 October 2005. Ms Ruddick was appointed as Chairman of the Audit Committee effective 1 November 2005.

Ms Nicky McCabe is Chief Operating Officer, Investment Management of Fidelity Investments International, a member of the Fidelity International Limited Group of Companies. Fidelity International Limited is the ultimate holding company of Fidelity Investments International. Ms McCabe has waived her entitlement to Director's fees.

No Director has a contract of service with the Company and no contracts existed during or at the end of the financial period in which any Director was materially interested and which were significant in relation to the Company's business, except as disclosed above in relation to Ms McCabe's interests in the Management Agreement. There have been no other related party transactions requiring disclosure under Financial Reporting Standard ("FRS") 8.

The interests of the Directors and Fidelity International Limited in the ordinary shares of the Company as at 31 August 2006 and 31 August 2005 are shown below. Fidelity International Limited holds 603,750 shares at the date of this report.

	Held at 31 August 2006	Held at 31 August 2005
Alex Hammond-Chambers ¹	16,000	16,000
Sir Richard Brooke	12,000	12,000
Douglas Kinloch Anderson	17,509	17,463
James Laurenson ²	n/a	37,000
Nicky McCabe	1,000	1,000
Lynn Ruddick	5,997	5,962
Fidelity International Ltd	805,000	805,000

1 Of which 11,000 shares (2005: 11,000) are non-beneficially owned
2 Resigned on 31 October 2005

An analysis of ordinary share holders as at 31 August 2006 is detailed in the table below.

Analysis of ordinary shareholders as at 31 August 2006	% of issued share capital
Private shareholders ¹	81.84
Other institutions	7.25
Insurance	6.99
Pensions	3.63
Charities	0.25
Other	0.04
	100.00

1 Includes Share Plan, ISA and PEP investors

Directors' Report

GENERAL continued

DIRECTORS AND OFFICERS' LIABILITY INSURANCE

In addition to benefits enjoyed under the Manager's global Directors and Officers' insurance arrangements, the Company maintains insurance cover for its Directors under its own policy as permitted by Section 310 of the Companies Act 1985 (as amended).

SUBSTANTIAL SHARE INTERESTS

At the date of this report the Company was not aware of any interests in 3% or more of the issued share capital of the Company. 35.5% of the issued share capital was held in aggregate by investors in the Fidelity PEP and ISA and the Fidelity Investment Trust Share Plan.

ANNUAL GENERAL MEETING

At the Annual General Meeting resolutions will be proposed to renew the Directors' authority to allot securities in the Company. The authorities sought by these resolutions are to replace the existing powers of the Directors which expire on the date of the Annual General Meeting and to provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

Resolution 11 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,626,870. If passed, this resolution will enable the Directors to allot a maximum of 6,507,480 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company as at 2 November 2006. The Directors would not intend to use this power unless the premium was in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

Resolution 12 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £1,626,870 (approximately 10% of the issued ordinary share capital of the Company as at 2 November 2006).

Resolution 13 is a special resolution which renews the Directors' authority to repurchase the Company's shares for cancellation. It is proposed that the Board be authorised to make arrangements to purchase through the London Stock Exchange up to 9,754,712 ordinary shares of 25 pence each (equivalent to 14.99% of the shares in issue at 2 November 2006). By utilising this power to repurchase shares when they are trading at a discount to net asset value, the Company will increase the resulting net asset value per share for remaining shareholders. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share.

The Directors recommend that shareholders vote in favour of these resolutions.

The full text of the resolutions is set out in the Notice of Meeting contained on pages 51 and 52.

CORPORATE GOVERNANCE

Full details are given in the Corporate Governance Statement on pages 26 to 31.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year (in accordance with United Kingdom Generally Accepted Accounting Practice) which give a true and fair view of the state of affairs of the Company and of the net revenue of the Company for that period. In preparing the 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report

The Directors are responsible for ensuring that proper 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 1985. 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.

The financial statements may be published on a website. The auditors have represented to your Board that their work does not involve any consideration of the maintenance and integrity of any websites and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were approved. Visitors to any website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

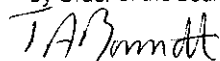
AUDITORS' RIGHT TO INFORMATION

As required by The Companies (Audit, Investigations and Community Enterprise) Act 2004 the Directors in office as at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

AUDITORS' APPOINTMENT

The Board, led by the Audit Committee Chairman, carried out a review of audit services during the year and agreed a change of auditors to RSM Robson Rhodes LLP. PricewaterhouseCoopers LLP ("PwC") will therefore not seek re-appointment at the forthcoming Annual General Meeting ("AGM") and, special notice having been received, a resolution to appoint RSM Robson Rhodes LLP as auditors to the Company will be proposed at the AGM together with a resolution regarding the auditors' remuneration.

By Order of the Board



Fidelity Investments International

Secretary

2 November 2006

Corporate Governance Statement

WHAT IS CORPORATE GOVERNANCE?

"Corporate governance", as the phrase implies, is the process by which a board of directors of a company looks after the shareholders' interests and by which it enhances 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 explains how the Directors of Fidelity Special Values deal with that responsibility, authority and accountability.

CORPORATE GOVERNANCE REQUIREMENTS

There have been extensive reviews of corporate governance in the UK which resulted in the FRC publishing a Combined Code – a set of governance principles which companies are expected to consider and either comply with or explain their own different approach. However, the Association of Investment Companies ("AIC", formerly known as the Association of Investment Trust Companies, "AITC"), of which Fidelity Special Values is a member, has established a Code of Corporate Governance[®] especially for investment trust companies which your Board believes to be the appropriate template for the structure of its own corporate governance.

The Board has drawn up a detailed corporate governance schedule which is available for inspection by shareholders and investors at the Company's registered office, which takes each of the detailed points in the still named AITC's Code of Corporate Governance and sets out exactly how the Board has chosen to respond to those points. Extracts from that schedule are included in this corporate governance report.

THE CORPORATE GOVERNANCE OF AN INVESTMENT TRUST COMPANY

The corporate governance of most investment trust companies, including Fidelity Special Values, is different from most other commercial companies in one important respect: they do not employ their own people as management but rather the services of a fund management company. This affects the way investment trusts are governed but not the purpose of their governance. Given that the Manager's business is not dedicated solely to the interests of investment trust companies and their shareholders, the composition of investment trust boards of directors must be largely independent of management but must have the knowledge and experience of both fund management and investment trust management, which the presence of executive management on other commercial boards brings to their corporate governance. This is vitally important if an investment trust company board is to

do its job properly. Most investment trust companies, including Fidelity Special Values, are established, managed and promoted by their managers, who are therefore one of the main reasons shareholders choose to invest in the investment trust company's shares. It follows that it is an important aspect of the corporate governance of an investment trust company that the Manager should be party to the responsibility, authority and accountability to those investing in their management. And finally, because a board of directors has the responsibility for maximising shareholder value in the long term, it is important that the directors (and the manager) are long term shareholders, thereby aligning their interests with those of the rest of the shareholders. The Board of Directors of Fidelity Special Values believes that these three matters are important aspects of the corporate governance policy of your Company.

FIDELITY SPECIAL VALUES' CORPORATE GOVERNANCE

The corporate governance of any investment trust company, while following the guidelines of the AITC Code of Corporate Governance, will vary in certain respects depending on its own circumstances. The Board of Fidelity Special Values has considered its own circumstances and determined its own corporate governance policies and *modus operandi*. Because it is important that shareholders should be aware of them, and indeed approve of them, the Board has chosen to outline them in this report.

The composition and the conduct of the Board of Directors are a material consideration for shareholders. Having laid out the Board's corporate governance policies and *modus operandi*, **the Directors ask shareholders to communicate with them, should they have concerns, criticisms or suggestions to make.** The Directors lay particular emphasis on shareholders with such concerns attending the Company's Annual General Meeting so that all those attending can hear those concerns expressed in open forum and make their own judgements accordingly. Communication between shareholders and the Board is an important part of good governance; the AGM is an important part of "shareholder democracy".

THE CORPORATE GOVERNANCE POLICIES AND MODUS OPERANDI OF FIDELITY SPECIAL VALUES

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.

Corporate Governance Statement

In determining the guidelines for the composition of the Board, the Directors believe that there should be a clear majority of the Board members (including the Chairman), who are independent of management, and that the makeup of the Board should bring understanding and experience of investment management, investment trust management, the investment objective of the Company, marketing, general business experience and finally of Fidelity's investment philosophy and its operations. While the key determinant of independent behaviour stems from personal character, the Directors recognise that any individual who is employed by or otherwise materially financially associated with the Manager, Fidelity Investments International, cannot be regarded as independent. However, as already explained, the Board regards it as important that there should be one senior executive from Fidelity Investments International serving as a Director. Other relationships, age or time served as a Director are not regarded *prima facie* as compromising independent behaviour but may nevertheless be of interest to shareholders and consequently the Directors' current business associations are set out on pages 16 and 17 for shareholders' perusal.

There are 21 principles which form the substance of the AITC's Code of Corporate Governance. The complete details of how your Company has adopted them are provided in its corporate governance schedule (referred to earlier). This report contains a summary of how the Board has adopted these principles.

All of the Directors are non-executive and four of the five have no relationship with the Manager. Their individual independence, including that of the Chairman, has been considered, taking into consideration:

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

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

Tenure, the term served by a director of a company, is a controversial issue. It is the belief of the Board that it can best do its job if it works as a team composed of individuals who work well together, if each contributes to its performance. In order to do so it believes that its membership should include both Directors who have served a long time and bring both experience and past

knowledge of the Company (and its business) to its governance and also include newer members who bring additional/further attributes to the Company's governance. The Board believes that if a person is naturally of an independent nature, then that independence is strengthened as length of service progresses. The annual Board assessment includes consideration of independence. These policies of tenure also apply to Committee membership.

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

The Board has designed and implemented a formal self-assessment process. This focuses on the composition and performance of the Board as a whole, on its committees and on individual contributions. In particular it undertakes a rigorous assessment of each Director's "independent" performance. The assessment involves a meaningful in-depth consideration of the Board's performance rather than the use of a "tick-box" system.

The Board considers that it meets sufficiently regularly to discharge its duties efficiently and the table on page 29 gives the attendance record for the meetings held in the year.

Responsibility

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

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

The Board believes that a good working relationship comes from Board and management working harmoniously together; in particular the Board should

Corporate Governance Statement

support the Manager in difficult times but challenge it when necessary; it is a *sine qua non* to good performance.

Authority

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

In structuring the Board meetings, the Directors try to concentrate as much as possible of their regular Board meetings on (i) investment matters (including strategy, gearing policy, investment policy, portfolio and stock reviews, portfolio turnover, monitoring performance, etc) and (ii) shareholder value matters (including monitoring the discount, share buybacks and Fidelity's Investment Trust Share Plan and ISA marketing). The contents of the Board meeting papers are determined by the Board itself and contain sufficient information on the financial condition of the Company. Key representatives of the Manager attend each Board meeting enabling the Board to probe further on matters of concern or seek clarification on certain issues. The Board meets at least once a year with the Company's investment bankers to discuss shareholder value and investor relation issues while the Manager meets with the larger shareholders at least once a year and reports back to the Board on those meetings. Because the Board of Directors is concerned that the bureaucratic burden of corporate governance procedure tends to crowd out investment and shareholder value matters at Board meetings, it has decided to discharge as much as possible of its corporate governance responsibilities through three committees:

The Audit Committee consists of all of the independent Directors and is charged with reviewing and monitoring the production of the annual and interim financial statements, the audit process, corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Section 842 status), the relationship with and performance of other third party service providers (such as the registrars or the custodian) and finally the relationship with the independent auditors (and their ongoing re-appointment and level of fees). The Committee meets with the independent auditors

at least once a year to review all these matters. The Committee itself meets at least twice a year and reports to the Board of Directors, making recommendations where appropriate.

Given the nature of investment trust companies and their small boards, it is important that the Chairman of the Board should be a member of it but not its chairman. This is both so that the skills and experience of the Chairman of the Board are brought into the Audit Committee and also to avoid duplication, in particular of the review of the interim and annual reports. The continued increase in the scope and in the technical nature of the work of the Committee means that its Chairman must have – and does have – recent and relevant financial experience.

The Management Engagement Committee consists of all of the independent Directors and is charged with reviewing and monitoring the performance of the Manager in respect of its contract and the fees it is paid. This Committee meets at least once a year and reports to the Board of Directors, making recommendations where appropriate.

The level of remuneration of the Manager is determined by the Management Engagement Committee; the fee relates to the investment management function, on which a percentage of shareholder funds under management is paid (thereby relating this part of its remuneration to performance) and a set fee to the administrative function. The Board of Directors is mindful that the amounts paid to the Manager should be sufficient to ensure that both the fund manager and the administrators within the management house appointed to the job of looking after its affairs are highly skilled and that those individuals should be largely focused on the Company's business. The non-executive independent Directors, constituted as the Management Engagement Committee, meet alone to consider any issues that they consider to be relevant.

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

- Quality of team – the skills and particularly the experience of the team involved in managing all aspects of the Company's business;
- Commitment of the Manager to the investment trust business generally and to the Company in particular;
- Managing the Company – in running and controlling the administration, the accounting and the secretaryship of the Company;
- Investment management – portfolio management

Corporate Governance Statement

- skills, experience and track record and other investment related considerations including gearing, currencies, hedging, share buybacks etc;
- Shareholders – shareholder consciousness and relations, discount management and commitment to the Company's goals; and
 - Management Agreement – consideration of fees, notice periods and duties.

The Nomination and Remuneration Committee consists of all of the Directors and is charged with nominating new directors for consideration by the Board of Directors, in turn for approval by the shareholders. It believes that the best way of ensuring that the Board as a whole and each independent Director individually carry out their duties in an independent manner, irrespective of the interests of the Manager, is to ensure that the search for, the interview of and recommendation to the Board of a candidate is controlled by the independent Directors, who in turn form the majority of this Committee. The Nomination and Remuneration Committee also considers the re-appointment of Directors. The Committee concerns itself with the remuneration of the Directors, considering as it does the remit of the job and the responsibility and time involved. It also makes itself aware of the directors' fees of other investment trust companies and other comparable entities.

When the Board looks for a new Director it looks for those criteria outlined above. Because personal attributes are difficult to assess, the Board relies heavily on third party experience and endorsement of the individual concerned. After consideration of the attributes considered necessary for the appointment of a new Director, members of the Committee recommend a number of candidates for consideration as a Director of the Company. In the event that insufficient suitable candidates are identified, a consultant would be used. Each candidate is considered by the Committee and a shortlist is drawn up for interview.

The Committee meets on an annual basis and as and when required, making recommendations where appropriate. There were no directors appointed during the year.

The level of remuneration of the non-executive Directors is set by the Nomination and Remuneration Committee. The non-executive Directors' remuneration is fixed as a rate for the role and/or the roles undertaken. The Director from Fidelity Investments International waives his or her fee.

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

Accountability

Given that the shareholders entrust the Board of Directors with the management of the Company's affairs, it is necessary that the Board accounts for itself to shareholders. The process of accountability involves providing all the necessary information for shareholders to make judgements about the Board's stewardship and performance through a full and informative annual report, a half-year report, accessibility to the Board at any time through the office of the Chairman and finally the presentation of the results (the financial statements) and future prospects at the Annual General Meeting. The Annual General Meeting is the pivotal point in the relationship between the Board of Directors and shareholders and is the occasion when the Board accounts for itself in public meeting. It regards any bona fide issue that any shareholder raises as one that should be put to all shareholders at the Annual General Meeting. The Annual General Meeting provides shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board of Directors. This includes the re-election of Directors every year. In addition to the normal matters of approving the financial statements, the election and re-election of Directors, the appointment of the independent

	Regular Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Management Engagement Committee Meetings
Alex Hammond-Chambers	5/5	3/3	2/2	3/3
Sir Richard Brooke Bt	5/5	3/3	2/2	3/3
Douglas Kinloch Anderson	5/5	3/3	2/2	3/3
Nicky McCabe	5/5	3/3	n/a	n/a
James Laurenson ¹	1/1	1/1	1/1	–
Lynn Ruddick	5/5	3/3	2/2	3/3

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

¹ Resigned on 31 October 2005

Corporate Governance Statement

auditors and the issue of new shares, your Board has an established policy that it should enable shareholders to decide on 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 Annual General Meeting in 2007, the last being at the Annual General Meeting on 9 December 2004.

COMPLIANCE WITH THE COMBINED CODE

The Board has considered the principles and recommendations of the AITC Code of Corporate Governance ("the AITC Code") by reference to the AITC Corporate Governance Guide ("the AITC Guide"). The AITC Code, as explained by the AITC Guide, addresses all the principles set out in Section 1 of the Combined Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and recommendations of the AITC Code, and by reference to the AITC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The Board is accountable to the Company's shareholders for good governance and considers that the Company has complied with the provisions of the AITC Code throughout the year to 31 August 2006 with the following exceptions:

The Combined Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AITC Guide and the preamble to the Combined Code the Board considers that these provisions are not relevant to the Company as it is an externally managed investment company and hence no further report is made in respect of these provisions. Furthermore, as the Chairman is an independent Director the Board has not appointed another senior independent director. Finally, a full list of the Company's portfolio has not been included in the annual report but will be made available on the Company's website.

INTERNAL CONTROL

The Board is responsible for the Company's system of internal control and reviewing its effectiveness.

The Board has contractually delegated to external agencies, including the Manager (Fidelity Investments International), the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day accounting and company secretarial requirements. Each of these contracts

was entered into after full and proper consideration by the Board of the quality and cost of services offered including the control systems in operation in so far as they relate to the affairs of the Company.

The Board has established a continuing process for the identification, control and evaluation of risk through a series of quarterly investment performance reports, a semi-annual internal controls report and quarterly compliance reports which are provided by the Manager. This process is in accordance with the Turnbull Internal Control Guidance and has been in place for the year ended 31 August 2006 and up to the date of the approval of the annual report and financial statements.

The systems of internal control are designed to reduce 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 Company's Audit Committee meets representatives of the Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

It reviews the annual and interim financial statements and the nature and scope and findings of the statutory audit. The Board carries out a risk and control assessment including a review of the corporate strategy and the Manager's and other third party suppliers' risk management processes. The key element of this assessment is the semi-annual internal controls report prepared by the Manager for its investment trust clients. The internal controls report sets out the Manager's control policies and procedures with respect to the management of its clients' investments. Whilst the Company, in common with most investment trusts, has no internal audit department, the effectiveness of these controls is monitored by the Manager's internal audit function. The Audit Committee has received and reviewed the internal controls report on the effectiveness of the internal controls maintained on behalf of the Company and an annual compliance report from the Manager's Global Oversight Director.

By means of the procedures set out above, the Directors have reviewed the effectiveness of the Manager's internal control systems throughout the period.

Corporate Governance Statement

GOING CONCERN

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements since the assets of the Company consist mainly of securities which are readily realisable and accordingly the Company has adequate financial resources to continue in operational existence for the foreseeable future.

For fuller understanding, the entire detail is contained in the Company's Corporate Governance schedule which may be found on the Fidelity website: www.fidelity.co.uk or obtained from Fidelity's Investor Centre or the Company's registered office.

On behalf of the Board

Alex Hammond-Chambers

2 November 2006

Directors' Remuneration Report

REMUNERATION COMMITTEE

The Company has a Nomination and Remuneration Committee and the determination of the Directors' fees is a matter dealt with by this Committee. Further details may be found on page 29.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil, the time committed to the Company's affairs and the responsibilities and potential liabilities, both financial and reputational.

No Director has a service contract with the Company. The Company does not offer payments to Directors on termination.

No Director received any bonus, taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 August 2006 or the year ended 31 August 2005.

The new fee structure with effect from 1 January 2006 is as set out in the second table below. With effect from 1 January 2007 the Board has agreed that the total fees for the Chairman be increased by £5,000, total fee for the Chairman of the Audit Committee by £3,500, and total fees for each Director by £2,000. The Board reviews remuneration on an annual basis.

REMUNERATION OF DIRECTORS¹

	2006 £	2005 £
Alex Hammond-Chambers	26,667	23,250
Sir Richard Brooke	17,833	15,667
Douglas Kinloch Anderson	17,833	15,667
James Laurenson ²	3,083	16,333
Nicky McCabe ³	–	–
Lynn Ruddick	18,883	1,458
Total	84,299	72,375

	Board Fee	Audit Committee Fee	Management Engagement Committee Fee	Total
Chairman	£24,000	£1,500	£1,500	£27,000
Chairman of the Audit Committee	£15,500	£2,500	£1,000	£19,000
Director	£15,500	£1,500	£1,000	£18,000

1 Audited information

2 Mr Laurenson resigned on 31 October 2005

3 Ms McCabe waived her Director's fees of £15,333 in 2006 (2005: £10,742)

Directors' Remuneration Report


Comparison of NAV and Share Price Total Return Performance Against the Benchmark Index
from 1 September 2001 to 31 August 2006

Prices rebased to 100

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

Sources: Fidelity and Datastream

(Past performance is not a guide to future returns)



Alex Hammond-Chambers

2 November 2006

Financial Calendar

Financial Calendar – the key dates in the Company's calendar for the year from 31 August 2006.

31 August – financial year end

18 December – dividend payment date

3 November – announcement of results

28 February – half year end

13 November – publication of this Annual Report

May – announcement of interim results to 28 February

14 December – Annual General Meeting

End of May – publication of Interim Report

Independent Auditors' Report

We have audited the financial statements of Fidelity Special Values PLC for the year ended 31 August 2006 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds Statement, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report it if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's Statement, the Manager's Review, the Directors' Report – incorporating the Business Review, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

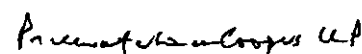
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we have evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 August 2006 and of its net return and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

2 November 2006

Income Statement

for the year ended 31 August

		2006			2005 restated*		
	Notes	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments	9	–	56,746	56,746	–	75,213	75,213
Income	2	9,548	–	9,548	8,057	–	8,057
Investment management fee	3	(4,303)	–	(4,303)	(3,441)	–	(3,441)
Other expenses	4	(542)	–	(542)	(460)	–	(460)
Exchange (losses)/gains		(4)	(17)	(21)	2	(28)	(26)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		4,699	56,729	61,428	4,158	75,185	79,343
Interest payable	5	(2,165)	–	(2,165)	(2,246)	–	(2,246)
NET RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		2,534	56,729	59,263	1,912	75,185	77,097
Taxation on return on ordinary activities	6	(149)	–	(149)	(126)	–	(126)
NET RETURN ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR		2,385	56,729	59,114	1,786	75,185	76,971
RETURN PER ORDINARY SHARE							
BASIC	8	3.65p	86.80p	90.45p	2.76p	116.02p	118.78p

A statement of Total Recognised Gains and Losses has not been prepared as there are no gains and losses other than those reported in this Income Statement.

The total column of the Income Statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

* Restated as shown in Note 20 to the financial statements

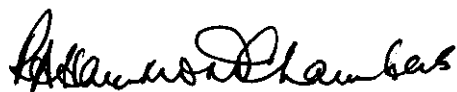
The Notes on pages 39 to 50 form an integral part of these financial statements

Balance Sheet

as at 31 August

	Notes	2006 £'000	2005 restated* £'000
FIXED ASSETS			
Investments at fair value through profit or loss	9	376,383	338,982
CURRENT ASSETS			
Debtors	10	2,491	9,604
Amounts held at futures clearing houses and brokers		–	147
Cash at bank		22,852	3,026
		<u>25,343</u>	<u>12,777</u>
CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors	11	(3,803)	(10,320)
NET CURRENT ASSETS		<u>21,540</u>	<u>2,457</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>397,923</u>	<u>341,439</u>
CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Fixed rate unsecured loans	12	(40,000)	(40,000)
TOTAL NET ASSETS		<u>357,923</u>	<u>301,439</u>
CAPITAL AND RESERVES			
Called up share capital	13	16,339	16,339
Share premium account	14	95,058	95,058
Capital redemption reserve	14	404	404
Other non-distributable reserve	14	5,152	5,152
Capital reserve – realised	14	193,393	113,023
Capital reserve – unrealised	14	44,001	68,475
Revenue reserve	14	3,576	2,988
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>357,923</u>	<u>301,439</u>
NET ASSET VALUE PER ORDINARY SHARE:			
BASIC	15	<u>547.65p</u>	<u>461.23p</u>

The financial statements on pages 35 to 50 were approved by the Board of Directors on 2 November 2006 and were signed on its behalf by:



Alex Hammond-Chambers, Chairman

*Restated as shown in Note 20 to the financial statements

The Notes on pages 39 to 50 form an integral part of these financial statements

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 August

Notes	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other non-distributable reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000	Total equity £'000
Opening shareholders' funds as previously stated: 1 September 2004	15,855	87,923	404	5,152	82,169	24,144	1,210	216,857
Effect of prior year adjustment as a result of a change in accounting policy regarding the treatment of dividends	20	–	–	–	–	–	888	888
Opening shareholders' funds as restated: 1 September 2004	15,855	87,923	404	5,152	82,169	24,144	2,098	217,745
Net recognised gains for the year	–	–	–	–	30,854	44,331	–	75,185
Issue of ordinary shares	484	7,135	–	–	–	–	–	7,619
Revenue after taxation	–	–	–	–	–	–	1,786	1,786
Dividend paid	7	–	–	–	–	–	(896)	(896)
Closing shareholders' funds as restated: 31 August 2005	16,339	95,058	404	5,152	113,023	68,475	2,988	301,439
Effect of changing prices from middle market to bid market at 1 September 2005	9	–	–	–	–	(833)	–	(833)
Net recognised gains/(losses) for the year	14	–	–	–	80,370	(23,641)	–	56,729
Revenue after taxation	14	–	–	–	–	–	2,385	2,385
Dividend paid	7	–	–	–	–	–	(1,797)	(1,797)
Closing shareholders' funds: 31 August 2006	16,339	95,058	404	5,152	193,393	44,001	3,576	357,923

Cash Flow Statement

for the year ended 31 August

	Notes	2006 £'000	2005 £'000
OPERATING ACTIVITIES			
Investment income received		4,139	3,990
Underwriting commission received		16	30
Deposit interest received		695	147
Investment management fee paid		(5,094)	(2,377)
Directors' fees paid		(85)	(74)
Other cash payments		(247)	(385)
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	16	(576)	1,331
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(2,163)	(2,235)
NET CASH OUTFLOW FROM SERVICING OF FINANCE		(2,163)	(2,235)
TAXATION			
Overseas taxation recovered		50	81
TAXATION RECOVERED		50	81
FINANCIAL INVESTMENT			
Purchase of investments		(280,761)	(206,753)
Disposal of investments		304,923	196,025
NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENT		24,162	(10,728)
EQUITY DIVIDEND PAID		(1,797)	(896)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		19,676	(12,447)
FINANCING			
5.435% fixed rate unsecured loan drawn down		–	27,000
7.82% fixed rate unsecured loan repaid		–	(10,000)
6.42% fixed rate unsecured loan repaid		–	(10,000)
Issue of ordinary shares		–	7,619
NET CASH INFLOW FROM FINANCING		–	14,619
INCREASE IN CASH	17	19,676	2,172

The Notes on pages 39 to 50 form an integral part of these financial statements

Notes to the Financial Statements

1 ACCOUNTING POLICIES

The Company has prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the AITC Statement of Recommended Practice ("SORP") for Investment Trusts dated January 2003 and revised in December 2005. Prior year adjustments as shown in Note 20 on page 50, have arisen due to the change in the accounting treatment of proposed dividends as explained in Note (i).

a) Basis of accounting – The financial statements have been prepared on a going concern basis and under the historical cost convention, modified to include the revaluation of fixed asset investments and on the assumption that approval as an investment trust will be granted.

b) Income – Income from equity investments is credited to the income statement on the date on which the right to receive the payment is established. Interest receivable on fixed interest securities is accounted for on an accruals basis so as to reflect the effective interest rate on the security. Franked dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. Interest receivable on short term loans and deposits are dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised as capital.

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

d) Expenses and finance costs – All expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement. Finance costs are accounted for on an accruals basis and in accordance with the provisions of Financial Reporting Standard ("FRS") 26 "Financial Instruments: Measurement".

e) Taxation – Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date, where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred. A deferred tax asset is recognised when it is more likely than not that the asset will be recoverable.

f) Foreign currency – The Directors, having regard to the currency of the Company's share capital and the predominant currency in which its investors operate, have determined the functional currency to be sterling. Transactions denominated in foreign currencies are calculated in sterling at the rate of exchange ruling as at the date of transactions. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Realised and unrealised capital gains and losses, including exchange differences on the translation of foreign currency assets and liabilities, are dealt with in capital reserves - realised and unrealised.

g) Valuation of investments – In accordance with FRS26, investments including listed derivatives, are classified as held at fair value through profit or loss. Listed investments are valued at bid market price. However, no adjustments have been made to the prior period's results as the Company has taken advantage of paragraph 108D of the Standard and disclosed the effect of valuing investments at bid market price as shown in Note 9 on page 43. Unlisted investments are valued at bid market prices ruling where an organised market in such investments exists; other unquoted investments are included at Directors' estimate of fair value. Where a price is not readily available the holding would be valued at cost unless circumstances indicate a different valuation is warranted. In general, valuations are increased where a substantial arm's length transaction has occurred subsequent to acquisition, at a price higher than cost. Valuations are decreased where subsequent transactions have taken place at a price lower than cost or where Fidelity's Fair Value Committee is aware that the company is experiencing operating difficulties.

h) Capital reserve – realised – Gains and losses on the realisation of investments, including listed derivatives, and realised exchange differences of a capital nature are accounted for in the capital reserve – realised.

Capital reserve – unrealised – Increases and decreases in the valuation of investments, including listed derivatives, held at the year end and unrealised exchange differences of a capital nature are accounted for in the capital reserve – unrealised.

i) Dividends - FRS21: "Events after the Balance Sheet Date" – In accordance with FRS21 dividends declared and approved by the Company after the balance sheet date have not been recognised as a liability of the Company at the balance sheet date. Prior year results have been restated accordingly and this is shown in Note 20 on page 50.

Notes to the Financial Statements

j) **Presentation** – The revised SORP has given rise to the following changes in the presentation of the financial statements:

(i) the Statement of Total Return is now called the Income Statement and the total column, as opposed to the revenue column, is now the profit and loss account of the Company.

(ii) a new primary statement, the Reconciliation of Movements in Shareholders's Funds, has been introduced. The dividends paid by the Company are now reported through this statement.

	2006 £'000	2005 £'000
2 INCOME		
Income from investments		
Franked investment income	3,367	2,641
UK unfranked investment income	8	57
UK scrip dividends	4,046	3,614
Overseas dividends	1,358	1,352
Overseas scrip dividends	61	211
	<u>8,840</u>	<u>7,875</u>
Other income		
Deposit interest	692	152
Underwriting commission	16	30
	<u>9,548</u>	<u>8,057</u>

	2006 £'000	2005 £'000
3 INVESTMENT MANAGEMENT FEE		
Investment management fee	3,662	2,929
Irrecoverable VAT thereon	641	512
	<u>4,303</u>	<u>3,441</u>

A summary of the terms of the Management Agreement is given in the Directors' Report on pages 21 and 22.

	2006 £'000	2005 £'000
4 OTHER EXPENSES		
Custody fees	45	34
Directors' fees	84	72
Legal and professional fees	36	39
Marketing expenses	158	120
Printing and publication expenses	89	81
Other	104	93
Auditors' remuneration		
Audit services	26	21
	<u>542</u>	<u>460</u>

Details of the breakdown of Directors' fees are provided on page 32 within the Directors' Remuneration Report.

Notes to the Financial Statements

	2006 £'000	2005 £'000
5 INTEREST PAYABLE		
Repayable within five years		
Bank overdraft	–	1
Fixed rate unsecured loans	2,165	2,245
	<u>2,165</u>	<u>2,246</u>

	2006 £'000	2005 £'000
6 TAXATION ON ORDINARY ACTIVITIES		
a) Analysis of charge in year		
Overseas tax suffered	149	126
Total current tax for the year	<u>149</u>	<u>126</u>

b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an investment trust company of 30% (2005: 30%).

The differences are explained below.

	2006 £'000	2005 £'000
Return on ordinary activities before taxation	<u>2,534</u>	<u>1,912</u>
Return on ordinary activities multiplied by the standard rate of corporation tax of 30% (2005: 30%)	760	574
Effects of:		
Income not included for tax purposes	(2,224)	(1,877)
Excess management expenses not utilised in the year	1,464	1,303
Overseas taxation	<u>149</u>	<u>126</u>
Current tax charge (Note 6a)	<u>149</u>	<u>126</u>

Investment trust companies are exempt from tax on capital gains if they meet the Inland Revenue criteria set out in S842 Income and Corporation Taxes Act 1988 for a given period. Therefore, any capital return is not included in the above reconciliation.

c) The deferred tax assets of £7,611,000 in respect of unutilised expenses at 31 August 2006 (2005: £6,147,000) and £476,000 (2005: £322,000) in respect of eligible unrelieved foreign taxation have not been recognised as it is unlikely that these assets will be utilised.

Notes to the Financial Statements

	2006 £'000	2005 £'000
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7 DIVIDENDS

Final dividend of 2.75 pence per share paid for the year ended 31 August 2005 (2004: 1.40p)

1,797	896
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The Directors have proposed a final dividend of 3.75 pence per share which is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total dividend payable in respect of the year ended 31 August 2006, which is the basis on which the requirements of S842 Income and Corporation Taxes Act 1988 are considered, is stated below:

2006 £'000	2005 £'000
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Proposed final dividend of 3.75 pence per share for the year ended 31 August 2006 (2005: 2.75 pence) based on number of shares in issue as at dates of Annual Reports

2,440	1,797
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	revenue	2006 capital	total	revenue	2005 capital	total
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8 RETURN PER ORDINARY SHARE

Basic	3.65p	86.80p	90.45p	2.76p	116.02p	118.78p
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Returns per ordinary share are based on the net revenue return on ordinary activities after taxation of £2,385,000 (2005: £1,786,000) and the capital return in the year of £56,729,000 (2005: £75,185,000) and on 65,356,053 ordinary shares (2005: 64,801,722) being the weighted average number of ordinary shares in issue during the year.

	2006 £'000	2005 £'000
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9 INVESTMENTS

Listed in the UK	305,735	256,497
Listed overseas	51,392	72,270
Total listed investments	357,127	328,767
AIM listed investments	19,122	9,812
Unlisted investments – Directors' valuation	134	403
Total other investments	19,256	10,215
	376,383	338,982

Notes to the Financial Statements

	2006			
	listed UK £'000	listed overseas £'000	other £'000	total £'000
Opening book cost	207,108	54,042	9,357	270,507
Opening unrealised appreciation	49,389	18,228	858	68,475
Opening valuation	256,497	72,270	10,215	338,982
Effect of changing prices from middle market to bid market at 1 September 2005	(540)	(171)	(122)	(833)
Movements in the year				
Purchases at cost	234,561	32,973	16,245	283,779
Sales – proceeds	(232,740)	(67,031)	(2,520)	(302,291)
Sales – realised gains on sales	62,085	18,073	232	80,390
Transfer to listed – cost	878	–	(878)	–
Transfer to listed – unrealised appreciation	416	–	(416)	–
Decrease in unrealised appreciation	(15,422)	(4,722)	(3,500)	(23,644)
Closing valuation	305,735	51,392	19,256	376,383
Closing book cost	271,892	38,057	22,436	332,385
Closing unrealised appreciation	33,843	13,335	(3,180)	43,998
	305,735	51,392	19,256	376,383

	2006 £'000	2005 £'000
Realised gains on sales based on cost	80,390	30,876
(Decrease)/increase in unrealised appreciation	(23,644)	44,337
Gains on investments	56,746	75,213

Realised gains on sales are shown net of realised losses on long futures positions closed out during the year amounting to £93,000 (2005: gains of £59,000).

Futures

As at 31 August 2006 the Company had no futures contracts (2005: 65 lots of FTSE 100 Index Futures September 2005 with a market value of £3,447,000).

	2006 £'000	2005 £'000
Unrealised loss on open futures commitments	–	(3)
Amounts held at futures clearing houses and brokers	–	147
	–	144

Notes to the Financial Statements

Costs of investment transactions	2006 £'000	2005 £'000
Purchases expenses	1,549	1,026
Sales expenses	255	278
	<u>1,804</u>	<u>1,304</u>
	2006 £'000	2005 £'000
10 DEBTORS		
Securities sold for future settlement	1,150	3,792
Overseas taxation recoverable	60	11
Currency receivable	178	5,036
Other debtors	1,103	765
	<u>2,491</u>	<u>9,604</u>
	2006 £'000	2005 £'000
11 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR		
Securities purchased for future settlement	2,288	3,367
Currency payable	178	5,038
Loan interest payable	223	221
Other creditors	1,114	1,694
	<u>3,803</u>	<u>10,320</u>
	2006 £'000	2005 £'000
12 CREDITORS – AMOUNTS FALLING DUE AFTER ONE YEAR		
Fixed rate unsecured loan @ 4.91% per annum	5,000	5,000
Fixed rate unsecured loan @ 5.655% per annum	8,000	8,000
Fixed rate unsecured loan @ 5.435% per annum	27,000	27,000
	<u>40,000</u>	<u>40,000</u>

The first fixed rate loan from The Royal Bank of Scotland PLC of £5,000,000 was drawn down on 7 February 2003 with a maturity date of 7 February 2008 at an interest rate of 4.91% per annum.

The second fixed rate loan from The Royal Bank of Scotland PLC of £8,000,000 was drawn down on 16 January 2004 with a maturity date of 16 January 2009 at an interest rate of 5.655% per annum.

The fixed rate loan from Barclays Bank PLC of £7,000,000 (Tranche A) was drawn down on 25 October 2004 and a further £20,000,000 (Tranche B) was drawn on 26 January 2005 both with a maturity date of 26 January 2010 at an interest rate of 5.435% per annum.

Redemption costs may be payable in the event of the Directors electing to prepay the unsecured loans.

Notes to the Financial Statements

	2006 £'000	2005 £'000
13 CALLED-UP SHARE CAPITAL		
Authorised:		
160,000,000 (2005: 160,000,000) ordinary shares of 25 pence each	40,000	40,000
Issued, allotted and fully paid:		
Beginning of year		
65,356,053 (2004: 63,419,923) ordinary shares of 25 pence each	16,339	15,855
Issue of ordinary shares: nil (2005: 1,936,130)	–	484
End of year		
65,356,053 (2005: 65,356,053) ordinary shares of 25 pence each	16,339	16,339

	2006					
	share premium account £'000	capital redemption reserve £'000	other non distributable reserve £'000	capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
14 RESERVES						
At 31 August 2005: as previously stated	95,058	404	5,152	113,023	68,475	1,191
Effect of prior year adjustment as a result of a change in the accounting policy regarding the treatment of proposed dividends	–	–	–	–	–	1,797
At 31 August 2005: as restated	95,058	404	5,152	113,023	68,475	2,988
Effect of changing prices from middle market to bid market at 1 September 2005	–	–	–	–	(833)	–
Exchange (losses)/gains on other net assets	–	–	–	(20)	3	–
Net gain on realisation of investments	–	–	–	80,390	–	–
Decrease in unrealised appreciation	–	–	–	–	(23,644)	–
Retained net revenue for year	–	–	–	–	–	2,385
Dividend paid to shareholders	–	–	–	–	–	(1,797)
End of year	95,058	404	5,152	193,393	44,001	3,576

15 NET ASSET VALUE PER SHARE

The basic net asset value per ordinary share is based on net assets of £357,923,000 (2005: £301,439,000) and on 65,356,053 (2005: 65,356,053) ordinary shares, being the number of ordinary shares in issue at the year end.

Notes to the Financial Statements

	2006 £'000	2005 £'000
16 RECONCILIATION OF NET RETURN BEFORE FINANCE COSTS AND TAXATION TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		
Net return before finance costs and taxation	61,428	79,343
Capital return for the year	(56,729)	(75,185)
Net revenue return before finance costs and taxation	4,699	4,158
Scrip dividends	(4,107)	(3,825)
(Decrease)/increase in other creditors	(5,440)	4,178
Increase/(decrease) in other debtors	4,471	(2,973)
Overseas taxation suffered	(199)	(207)
Net cash (outflow)/inflow from operating activities	(576)	1,331

	2006 £'000	2005 £'000
17 RECONCILIATION OF NET CASH MOVEMENTS TO MOVEMENT IN NET DEBT		
Beginning of year	(36,827)	(31,993)
Net cash inflow	19,676	2,172
Fixed rate unsecured loans drawn down	–	(27,000)
Fixed rate unsecured loans repaid	–	20,000
Foreign exchange movement	3	(6)
Change in net debt	19,679	(4,834)
End of year	(17,148)	(36,827)

	2006 £'000	Change in the year £'000	2005 £'000
Analysis of balances			
Amounts held at futures and clearing houses	–	(147)	147
Cash at bank	22,852	19,826	3,026
Fixed rate unsecured loans	(40,000)	–	(40,000)
End of year	(17,148)	19,679	(36,827)

	share capital and reserves £'000	2006 loans £'000	total £'000	share capital and reserves £'000	2005 loans £'000	total £'000
18 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR						
Beginning of year	116,953	40,000	156,953	109,334	33,000	142,334
Issue of ordinary shares	–	–	–	7,619	–	7,619
Fixed rate unsecured loans drawn down	–	–	–	–	27,000	27,000
Fixed rate unsecured loans repaid	–	–	–	–	(20,000)	(20,000)
End of year	116,953	40,000	156,953	116,953	40,000	156,953

Notes to the Financial Statements

19 FINANCIAL INSTRUMENTS

The investment objective of the Company is detailed in the Objectives and Highlights on page 1. In pursuit of this objective, the Company may be exposed to various forms of risk, as described below.

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's investment objective and policies
- Cash, liquid resources and short term debtors and creditors that arise from its operations
- UK sterling borrowings to finance operations

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

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Short term debtors and other short term creditors are excluded from the following analyses.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and changes in exchange rates. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Investment 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.

During the year the Company acquired a put option in order to reduce exposure to the market and thus providing protection against falls in the values of securities. This gave rise to a realised gain amounting to £1,043,000 (2005: £nil).

Long futures positions have been used during the year as a quick and effective means to increase the Company's exposure to the equity market. Due to the movement of markets in the year transactions in long futures have resulted in realised capital losses of £93,000 (2005: gains of £59,000).

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 1 investments are now shown at fair value which is interpreted to be bid market price. In the case of cash, book value approximates to fair value due to the short maturity of the instruments. The exceptions are the long term fixed rate unsecured loans, whose fair values as at 31 August 2006, given below, have been calculated by discounting future cash flows at current UK sterling interest rates.

	2006		2005	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured loan @ 4.91% per annum	4,962	5,000	5,042	5,000
Fixed rate unsecured loan @ 5.655% per annum	8,038	8,000	8,270	8,000
Fixed rate unsecured loan @ 5.435% per annum	27,117	27,000	27,962	27,000
	<u>40,117</u>	<u>40,000</u>	<u>41,274</u>	<u>40,000</u>

Notes to the Financial Statements

Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through UK sterling denominated fixed rate unsecured bank loans, which fall due for repayment in February 2008, January 2009 and January 2010. The Company is therefore not exposed to a financial risk arising as a result of any increase in UK sterling interest rates on these loans. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

The Company's financial assets are mainly invested in equity shares and other investments which neither pay interest nor have a maturity date. The Company also has cash balances invested at short term market interest rates which therefore carry no material risk (2005: same).

The interest profile of the Company's financial liabilities excluding short term creditors, as at 31 August 2006 and 2005 was as follows:

	2006			2005		
	fixed rate financial liabilities £'000	weighted average interest rate	weighted average period for which rate is fixed	fixed rate financial liabilities £'000	weighted average interest rate	weighted average period for which rate is fixed
Currency						
UK sterling	<u>40,000</u>	<u>5.41%</u>	<u>36 months</u>	<u>40,000</u>	<u>5.41%</u>	<u>48 months</u>

Foreign currency risk

The Company's total return and balance sheet can be affected by foreign exchange movements because the Company has assets and income which are denominated in currencies other than the Company's base currency (sterling).

The Board has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affecting the value of investments
- Movements in rates affecting short term timing differences
- Movements in rates affecting the income received

The Company does not hedge the sterling value of investments or other net assets priced in other currencies by the use of derivatives.

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

Notes to the Financial Statements

The following is an analysis of the Company's foreign currency exposure as at 31 August 2006 and 2005:

Currency	2006			2005		
	Monetary assets £'000	Monetary liabilities £'000	Net monetary assets £'000	Monetary assets £'000	Monetary liabilities £'000	Net monetary assets £'000
Australian dollar	–	–	–	203	–	203
Canadian dollar	115	–	115	1,164	–	1,164
Chinese yuan	–	–	–	3,717	–	3,717
Danish krone	–	–	–	695	–	695
Euro	7,762	–	7,762	18,566	–	18,566
Hong Kong dollar	9,195	(51)	9,144	7,123	–	7,123
Indian rupee	–	–	–	1,857	–	1,857
Norwegian krone	13,334	–	13,334	19,366	–	19,366
Singapore dollar	496	–	496	218	–	218
Swedish krona	875	(8)	867	4,541	(3,771)	770
Swiss franc	16,040	–	16,040	13,398	–	13,398
US dollar	2,315	(150)	2,165	7,377	(3,363)	4,014
Total	50,132	(209)	49,923	78,225	(7,134)	71,091
UK sterling	351,594	(43,594)	308,000	273,534	(43,186)	230,348
Balance sheet total	401,726	(43,803)	357,923	351,759	(50,320)	301,439

Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short term flexibility is achieved by the use of overdraft facilities as required. Details of the Company's borrowing commitments are explained in Note 12 to the financial statements.

The maturity profile of the Company's financial liabilities at 31 August 2006 and 2005 is as follows:

	2006 £'000	2005 £'000
After more than one year but less than two years	5,000	–
After more than two years but less than five years	35,000	40,000
	<u>40,000</u>	<u>40,000</u>

The Company does not have any undrawn committed borrowing facilities.

Counterparty risk

Certain transactions in securities that the Company enters into expose it to the risk that the counterparty will not deliver either the shares (on a purchase) or the cash (on a sale) after the Company has fulfilled its responsibilities. There is also a counterparty risk associated with deposit takers.

The Company buys and sells investments on a delivery versus payment basis to manage risk.

The Company only buys and sells investments through brokers which have been approved by the Manager as an acceptable counterparty. Additionally, limits are set as to the maximum exposure to any broker at any time, the limits being reviewed on a regular basis.

Notes to the Financial Statements

	2006 Shareholders' funds £'000	2005 Shareholders' funds £'000
20 PRIOR YEAR ADJUSTMENTS AND RESTATEMENTS		
Opening balance as previously stated: 1 September 2005	299,642	216,857
Effect of prior year adjustment as a result of a change in accounting policy regarding the treatment of proposed dividends	1,797	888
Opening balance as restated: 1 September 2005	301,439	217,745
Effect of changing prices at 1 September 2005	(833)	–
Issue of ordinary shares	–	7,619
Other recognised gains for the year	56,729	75,185
Revenue after taxation	2,385	1,786
Dividend paid	(1,797)	(896)
Closing balance as restated: 31 August 2006	357,923	301,439

21 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the year end the Company had a contingent liability in respect of the exercise of warrants held as follows:

	Price	2006 Liability £'000	2005 Liability £'000
Cadiz Warrants 2008	USD 15	35	38
Kingboard Chemicals Warrants 2006	–	–	34
RAB Special Solutions A 2006	–	–	122
RAB Special Solutions B 2007	130p	138	138
		173	332

22 TRANSACTIONS WITH THE MANAGER

The Directors have complied with the provisions of FRS8 which require disclosure of related party transactions and balances. Fidelity Investments International is the Manager and Secretary of the Company and details of the services provided and fees paid are given on pages 21 and 22.

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at 25 Cannon Street, London EC4M 5TA on 14 December 2006 at 11.30am for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and financial statements for the year ended 31 August 2006.
2. To approve a final dividend.
3. To re-elect Mr Alex Hammond-Chambers as a Director.
4. To re-elect Sir Richard Brooke as a Director.
5. To re-elect Mr Douglas Kinloch Anderson as a Director.
6. To re-elect Ms Nicky McCabe as a Director.
7. To re-elect Ms Lynn Ruddick as a Director.
8. To approve the Directors' Remuneration Report for the year ended 31 August 2006.

To consider the following ordinary resolution special notice having been received of the intention that it be proposed:

9. To appoint RSM Robson Rhodes LLP as auditors 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 auditors' remuneration.

SPECIAL BUSINESS

Resolutions 11 and 12 will, if approved, authorise the Directors to allot a limited number of the currently unissued ordinary shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 10% of the number of ordinary shares of the Company in issue on 2 November 2006. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

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

11. THAT the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (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 £1,626,870 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 2 November 2006) such authority to expire at the conclusion of the next Annual General Meeting of the Company or the date 15 months after the passing of this resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this resolution had not expired.

12. THAT, subject to the passing of Resolution 11 set out above, the Directors be and they are hereby authorised, pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) pursuant to the authority given by the said Resolution 11 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:-

- a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of relevant equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and
- b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £1,626,870 (approximately 10% of the aggregate nominal amount of the issued share capital of the Company as at 2 November 2006); and
- c) to the allotment of equity securities at a price of not less than the net asset value per share

Notice of Meeting

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

Resolution 13 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.99% of the number of ordinary shares in issue on 2 November 2006. Purchases of ordinary shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value 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 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of shares of 25p each in the capital of the Company (the "shares") provided that:

- a) the maximum number of shares hereby authorised to be purchased shall be 9,754,712;
- b) the minimum price which may be paid for a share is 25p;
- c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the middle market quotations for a share taken from the London Stock Exchange Official List for the five business days immediately preceding the day on which the share is purchased;
- d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company unless such authority is renewed prior to such time; and
- e) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

By order of the Board


Fidelity Investments International

Secretary

13 November 2006

Notes:

- 1 A shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
- 2 A form of proxy is enclosed for use by shareholders. 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 notari ally or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita Registrars, P O Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.
- 4 In the case of joint holders, the vote of the senior who tenders the vote shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members.
- 5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 5.30pm on 12 December 2006 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 5.30pm on 12 December 2006 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- 6 Shareholders and any proxies or representatives they appoint agree by attending the meeting that they are expressly agreeing that they are willing to receive any communications, including communications relating to the Company's securities, made at the meeting.
- 7 No Director has a service contract with the Company.

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

Investing in Fidelity Special Values PLC

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

INVESTING INSIDE AN ISA

A Fidelity ISA (Individual Savings Account) can be an excellent way to get more from your investment, because you will not have to pay income or capital gains tax on your returns. You can invest:

- up to £7,000 in a Maxi ISA
- up to £4,000 in a Mini stocks and shares ISA

The minimum investment in the Fidelity ISA is £1,000 as a lump sum, £250 as a top-up or £50 a month in a regular savings plan.

5-in-1 ISA – Fidelity Special Values PLC is one of five investment trusts managed by Fidelity. You can invest in the entire range through the Fidelity 5-in-1 ISA, which spreads your money equally across all five trusts. This offers a simple and convenient way to invest across Europe, the UK, Japan and Asia – giving you a broadly diversified portfolio in a single investment.

Charges – The standard initial charge for the Fidelity ISA is 3.5%. There are no other charges for the Fidelity ISA but the Company pays an annual management charge to Fidelity of 0.875% (plus VAT) of net assets for investment management and £600,000 for non-portfolio management services as set out in the Annual Report.

MOVING MONEY FROM PREVIOUS PEPS AND ISAS

If you have opened ISAs or PEPs with other investment companies, you can move them into the Fidelity ISA and invest in Fidelity Special Values PLC without losing any tax benefits. This is known as a transfer and it can be a great way to give your portfolio a new focus, or to realign it with your current investment goals. Please note that during the transfer your money will not be invested in the stock market so you may miss out on any growth during this time.

Charges – The standard initial charge for a transfer is 3.5%. You will not have to pay any additional transfer costs. However, please bear in mind that your current ISA or PEP manager may ask you to pay an exit fee. The annual management charge is as described above in the "Investing inside an ISA" section.

INVESTING OUTSIDE AN ISA

If you prefer to invest outside an ISA, or have already used your full ISA allowance, the Fidelity Investment Trust Share Plan offers you a low-cost and convenient way to put money into Fidelity Special Values PLC.

The minimum investment is £1,000 as a lump sum, £250 as a top-up or £50 a month in a regular savings plan.

Investing for children – The Share Plan is a flexible and inexpensive way to invest on behalf of children. All you have to do is enter the initials or name of the child in the Designation Box on the Share Plan application form. A special leaflet on investing for children through investment trusts is available from Fidelity.

Charges – There are no charges for buying, selling or holding shares through the Fidelity Investment Trust Share Plan other than Stamp Duty of 0.5%, which is currently payable on all share purchases. However, if you invest through a Financial Adviser, there may be an initial charge of up to 3% to pay for advice.

Holding shares directly – If you have shares in Fidelity Special Values PLC that you bought through a broker or share shop, you can transfer them into the Fidelity Investment Trust Share Plan. Doing this allows you to reinvest your dividends and make further investments without having to pay brokerage fees.

You will also be able to set up a monthly savings plan and receive statements and valuations twice a year.

Investing in Fidelity Special Values PLC

INVESTING ONLINE

You can invest online in Fidelity Special Values PLC shares via www.fidelity.co.uk/sharenetwork. Fidelity Share Network enables you to buy or sell shares in any listed company during normal London Stock Exchange trading hours – between 8am and 4:30pm any working day. Shares in Share Network can either be held direct or in an ISA, subject to the normal ISA limits and restrictions. You will be shown a live price and be able to buy or sell immediately. If an order is placed when the market is closed it will be processed as soon as the market re-opens. Unlike many other share dealing services, Fidelity Share Network gives you CREST personal membership for shares held direct. This means that shares are registered on the CREST system in your own name and everything relating to you – shares, dividends, annual reports and so on – will be sent direct to you and you will be able to attend and vote at shareholder meetings in your own name. Personal CREST membership does not apply to ISA holdings which must be held in the name of the ISA manager's nominee under ISA regulations. Fidelity Share Network has a very competitive cost structure. Share purchases or sales are executed online for only £9 per trade. (Stamp duty is also payable on purchases at the rate of 0.5%). There is an account administration fee of £5 per month however many different shares you own and whatever their value.

CONTACT INFORMATION

Private Investors: call free to 0800 414110, 9am to 6pm.

Financial advisers: call free to 0800 414181, 8am to 6pm, Monday to Friday.

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

Holders of ordinary shares or warrants:
Capita Registrars, Registrars to Fidelity Special Values PLC, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone: 0870 162 3100

Share Plan investors:
Fidelity Investment Trust Share Plan,
Lloyds TSB Registrars, The Causeway,
Worthing, West Sussex BN99 6BDA
Telephone: 0870 601 5366

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

Fidelity Share Network:
<http://www.fidelity.co.uk/sharenetwork>

General enquiries should be made to Fidelity, the Investment Manager and Secretary, at the Company's registered office:
Fidelity Investments International
Investment Trusts,
Beech Gate, Millfield Lane, Lower Kingswood,
Tadworth, Surrey KT20 6RP

Internet site: www.fidelity.co.uk/its

For the purpose of Sections 21 and 25 of the Financial Services and Markets Act 2000, the content of this report has been approved by Fidelity Investments International. Issued by Fidelity Investments International.

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Past performance is not a guide to future returns.

For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment. Investing in small and emerging markets can be more volatile than older developed markets.

Reference in this document to specific securities should not be construed as a recommendation to buy or sell these securities, but is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. The Fidelity Individual Savings Account ("ISA") is offered and managed by Financial Administration Services Limited. The Fidelity Investment Trust Share Plan is managed by Fidelity Investments International, administered by Lloyds TSB Registrars and shares will be held in the name of Lloyds TSB Registrars Savings Nominees Limited. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future. Fidelity investment trusts are managed by Fidelity Investments International. Fidelity only gives information about its own products and services and does not provide investment advice based on individual circumstances. Should you wish to seek advice, please contact a Financial Adviser. Issued by Fidelity Investments International, authorised and regulated by the Financial Services Authority.

Investing in Fidelity Special Values PLC

KEEPING YOU UPDATED

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

The share price of Fidelity Special Values PLC appears daily in The Financial Times.

Price and performance information is also available at www.fidelity.co.uk/its

Investors can obtain the real-time share price by phoning FT Cityline on 0906 843 2422.

Calls cost 60p a minute.

FURTHER INFORMATION

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

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

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