

FIDELITY EUROPEAN VALUES PLC

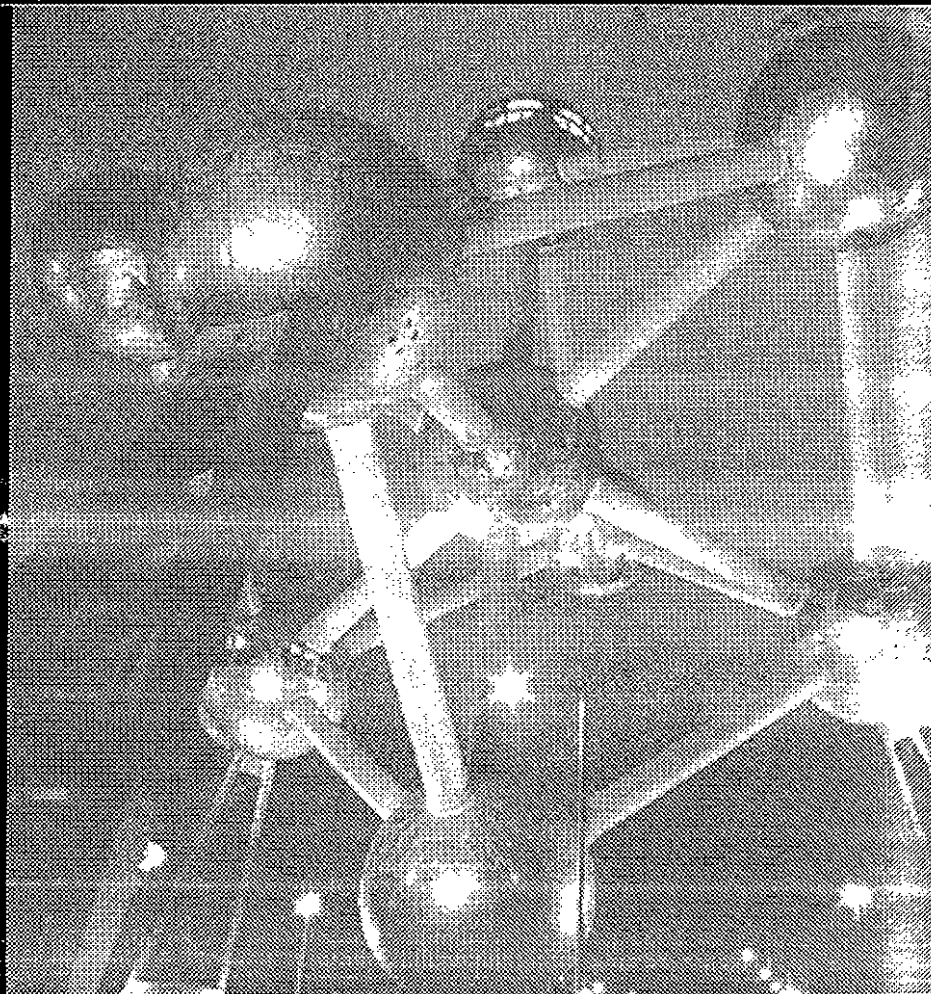
ANNUAL REPORT

Year ended 31 December 1997

Company number 2638812



# **Fidelity** **European Values PLC**



**Annual Report**

**31 December**

**1997**

## The Investment Objective

of the Company is to achieve long-term capital growth from the stockmarkets of continental Europe.

### Performance - total return (includes reinvested income)

|                                         | For year to<br>31 December 1997 | From launch<br>5 November 1991 |
|-----------------------------------------|---------------------------------|--------------------------------|
| Net asset value (basic/undiluted) (NAV) | +28.4                           | +234.9                         |
| Share price                             | +26.4                           | +192.8                         |
| FT/S&P Actuaries Europe (ex UK) (£)     | +29.6                           | +166.9                         |

### Historical Record - year to 31 December

|      | total<br>assets<br>employed<br>£m | share-<br>holders'<br>funds<br>£m | NAV<br>per share | NAV<br>per share<br>fully-<br>diluted | share<br>price | warrant<br>price | earnings<br>per share<br>basic | dividend<br>per<br>ordinary<br>share |
|------|-----------------------------------|-----------------------------------|------------------|---------------------------------------|----------------|------------------|--------------------------------|--------------------------------------|
| 1992 | 55                                | 43                                | 103.54p          | 102.95p                               | 97.00p         | 27.00p           | 0.49p                          | 0.30p                                |
| 1993 | 85                                | 70                                | 167.49p          | 156.29p                               | 167.50p        | 99.00p           | 0.32p                          | 0.30p                                |
| 1994 | 111                               | 90                                | 173.53p          | 161.40p                               | 152.50p        | 94.00p           | 0.49p                          | 0.30p                                |
| 1995 | 137                               | 113                               | 216.32p          | 197.19p                               | 193.00p        | 102.00p          | 1.46p                          | 0.60p                                |
| 1996 | 167                               | 141                               | 246.58p          | 224.26p                               | 220.00p        | 121.00p          | 1.26p                          | 0.60p                                |
| 1997 | 220                               | 181                               | 315.81p          | 285.45p                               | 277.50p        | 177.50p          | 0.83p                          | 0.60p                                |

\* for the period from 6 November 1991 to 31 December 1992

# Contents

---

|           |                                    |
|-----------|------------------------------------|
| <b>2</b>  | Chairman's Statement               |
| <b>4</b>  | Summary of Results                 |
| <b>5</b>  | Investor Information               |
| <b>7</b>  | Investment Manager's Report        |
| <b>10</b> | Portfolio Listing                  |
| <b>12</b> | Distribution of the Portfolio      |
| <b>13</b> | Board of Directors                 |
| <b>14</b> | Directors' Report                  |
| <b>20</b> | Statement of Total Return          |
| <b>21</b> | Balance Sheet                      |
| <b>22</b> | Cash Flow Statement                |
| <b>23</b> | Notes to the Accounts              |
| <b>33</b> | Auditors' Report                   |
| <b>34</b> | Notice of Annual General Meeting   |
| <b>36</b> | Directory                          |
| <b>37</b> | Glossary of Investment Trust Terms |

## Chairman's Statement



**Sir Charles Fraser**  
Chairman

I am pleased to present the annual report of Fidelity European Values PLC for the year ended 31 December 1997.

**Performance** - European markets were among the best performing markets in a year which saw considerable divergence in returns from the world's equity markets. European markets benefited from a pick up in economic activity, strong profit growth expectations, corporate restructuring and falling bond yields. The total return on an NAV per share basis was 28.4% while on a share price basis the return was 26.4%. The difference is a result of a slight widening in the discount at which the shares traded to the diluted NAV (1997 : 2.8%, 1996 : 1.9%). In comparison, the benchmark index, the FT/S&P Actuaries Europe (ex UK) Index returned 29.6%. From launch to 31 December 1997 the NAV per share has risen 234.9% on a total return basis, compared with an increase of 166.9% in the Index. Further details of the factors which contributed to the performance of the Company are given in the Investment Manager's Report on pages 7 to 9.

**Outlook** - The outlook for European equity markets remains positive. Although the factors which contributed to the strong market performance in 1997 are unlikely to have such a positive influence in 1998, they should nevertheless offer solid support for equities.

Economic growth is expected to pick up further while inflationary pressures remain relatively subdued. We believe that this implies little upward pressure on interest

rates which provides a favourable environment for equities. The Asian problems are likely to sustain this environment via their deflationary influence on commodity prices thus encouraging European governments not to tighten policy. While the rate of profits growth is slowing it remains very respectable, particularly when compared with other markets.

As always, movements in the US stockmarket are likely to influence European markets. However, one of the main domestic themes likely to affect equities is progress towards European Monetary Union (EMU). Postponement of EMU, although increasingly unlikely, would have an unsettling effect on markets. Another key theme is corporate restructuring. Management are increasingly looking at ways of becoming more competitive and this is manifesting itself in corporate restructuring. The single currency and single market, in addition to increasing global competitiveness, should continue to focus management's attention on creating shareholder value.

**Investment policy** - Following the changes in Europe over the last few years, and in particular Eastern Europe, your Board and Investment Manager have sought to clarify the geographic area in which the Company might invest. Guidelines have been introduced which allow up to 15% of gross assets to be invested in Eastern European countries. A further 5% may be invested outside continental Europe in companies which have a European connection. The balance will be invested within continental Europe including some of the less developed European markets. Full details are included in the Investment Manager's Report on page 9.

**Placing of Equity Index-Linked Unsecured Loan Stock 2001** - The Company is geared by the issue of the Loan Stock which is linked to the FT/S&P Actuaries Europe (ex UK) Index. As mentioned in my statement last year, the Company issued a further 2,380,000 units of

Loan Stock in January 1997, thereby raising a further £4.5 million. The level of gearing in the Company now amounts to 21.4% and we believe that in the long term the gearing will enhance returns to shareholders.

**Purchase of Warrants** - Further to the announcement on 10 November 1997 of the Company's intention to purchase its own warrants for cancellation, the Company has purchased and cancelled 500,000 warrants. Full details of these purchases are given in the Directors' Report on page 14. Purchases are made by the Manager within guidelines laid down by the Board and are only made if they will result in an uplift in the fully-diluted net asset value.

**Dividends** - Your Board is recommending the payment of a foreign income dividend of 0.60p per share (1996: 0.60p per share) payable on 19 May 1998 to shareholders on the register at close of business on 14 April 1998.

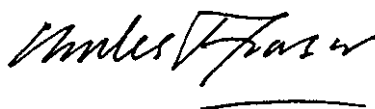
**Share Plan and PEP** - The Fidelity Investment Trust Share Plan and the Fidelity Investment Trust Personal Equity Plan provide investors with a simple and cost effective way to invest in the Company. We believe that the continued success of the plans is beneficial to shareholders as it stimulates demand for shares in the Company and thereby reduces the discount to NAV and widens the shareholder base.

During the year a further 16,786 ordinary shares were issued at market value to participants in the Share Plan when the shares were trading at a premium in excess of 2% to the fully-diluted net asset value.

In 1999, PEPs are due to be replaced by the Individual Savings Account (ISA). Under the current Government proposals, PEPs can be transferred into ISAs, subject to a maximum limit, which means they will retain their tax privileges up to that limit. Fidelity was one of the first companies to offer PEPs and plans to be one of the leaders

in the field of ISAs. Investors in the Fidelity PEP will be able to transfer into the Fidelity ISA easily and free of any conversion charges subject to any maximum limit imposed.

**Annual General Meeting** - The annual general meeting of the Company is due to take place on 18 May and all shareholders, PEP and Share Plan investors are invited to attend. Full details of the meeting are given on page 34 and I look forward to meeting you then.



Sir Charles Fraser  
23 February 1998

## Summary of Results

|                                                                              | 1997                | 1996    | % change* |
|------------------------------------------------------------------------------|---------------------|---------|-----------|
| <b>Assets</b> at 31 December                                                 |                     |         |           |
| Total assets employed                                                        | £220.5m             | £167.0m | +32.0     |
| Shareholders' funds                                                          | £181.4m             | £140.8m | +28.8     |
| Borrowings as % of shareholders funds                                        | 21.5%               | 18.6%   |           |
| Net asset value per share (NAV)                                              | 315.81p             | 246.58p | +28.1     |
| Diluted NAV ie assumes warrants exercised                                    | 285.45p             | 224.26p | +27.3     |
| <b>Return</b> for year to 31 December - see page 20                          |                     |         |           |
| Capital return per ordinary share                                            | 70.39p              | 31.42p  |           |
| Capital + revenue return per ordinary share                                  | 71.22p              | 32.68p  |           |
| Foreign income dividend per ordinary share                                   | 0.60p               | 0.60p   |           |
| Interest paid per unit of Loan Stock - March                                 | 0.79p <sup>†</sup>  | 1.08p   |           |
|                                                                              | 0.96p <sup>††</sup> | 1.08p   |           |
| - June                                                                       | 1.14p               | 1.12p   |           |
| - September                                                                  | 1.05p               | 1.20p   |           |
| - December                                                                   | 1.05p               | 1.05p   |           |
| <b>Stockmarket Data</b> at 31 December                                       |                     |         |           |
| FT/SSP Actuaries Europe (ex UK) Index                                        | 233.99              | 183.37  | +27.6     |
| Share price                                                                  | 277.50p             | 220.00p | +26.1     |
| Discount to diluted NAV                                                      | 2.8%                | 1.9%    |           |
| Warrant price                                                                | 177.50p             | 121.00p | +46.7     |
| Loan Stock - price per unit                                                  | 209.50p             | 173.00p | +21.1     |
| Loan Stock - index value per unit                                            | 233.99p             | 183.37p | +27.6     |
| <b>Total Returns</b> (includes reinvested income)<br>for year to 31 December |                     |         |           |
| FT/SSP Actuaries Europe (ex UK) Index                                        | +29.6%              | +8.6%   |           |
| NAV                                                                          | +28.4%              | +14.3%  |           |
| For shareholders                                                             | +26.4%              | +14.3%  |           |
| For package holders ie 5 shares + 1 warrant                                  | +28.2%              | +14.7%  |           |

\* price change

† relates to Loan Stock in issue as at 1 January 1997

†† relates to a further 2,380,000 units of Loan Stock issued on 15 January 1997

## Investor Information

---

As an investment trust company Fidelity European Values PLC is listed on the London Stock Exchange in just the same way as Marks & Spencer, ICI, British Telecom etc. The business of an investment trust, advised by its manager, is to invest in the shares of other companies. Becoming an investment trust shareholder is therefore an ideal way for an investor to acquire an underlying spread of investments with the aim of providing growth of capital and/or income. The objective of Fidelity European Values is to achieve long-term capital growth from the stock-markets of continental Europe.

Fidelity European Values was launched on 5 November 1991 with one warrant attached to every five shares. The original subscription price for each share was £1. In 2001, and every two years thereafter, shareholders will have the right to approve, or otherwise, the continued existence of the Company. The Company's investment portfolio is managed by Fidelity Investments International (FII), part of the world's largest independent investment management organisation with approximately £400 billion of assets under management as at 31 December 1997. FII is regulated by IMRO and the Personal Investment Authority while the Company is a member of The Association of Investment Trust Companies (AITC) from whom general information on investment trusts can be obtained by telephoning 0171 282 5555.

### How to invest

The ordinary shares, warrants and units of Equity Index-Linked Loan Stock (the Loan Stock is the form of borrowing which the Company uses to enhance potential returns - see page 37) can be bought and sold directly through a stockbroker or indirectly via a lawyer, accountant or other independent financial adviser. A number of banks and building societies also offer this service. The shares can also be bought directly through the Fidelity Investment Trust Share Plan and the Fidelity Investment Trust Personal Equity Plan (PEP).

**The Share Plan** allows an investor to make regular monthly payments (minimum £30 per month) or to invest a lump sum (initial minimum £1,000, thereafter £100) into

any of the four investment trusts managed by Fidelity. The only charge is Government Stamp Duty of 0.5% payable on all share purchases. Any dividends can be reinvested in additional shares or taken as cash, as preferred. Statements and valuations are sent four times a year.

**The PEP** has the advantage that any dividends and capital growth from investments held within a PEP are free from tax. The maximum that a qualifying individual can invest in a general PEP in any one tax year (6 April to 5 April) is £6,000 and Fidelity European Values qualifies for this £6,000 limit. You can invest from as little as £50 a month or with a minimum lump sum of £1,000. It is expected that PEPs will cease to exist in October 1999 and be replaced by Individual Savings Accounts (ISAs).

There is no additional annual administration fee for the PEP. A share exchange facility also exists whereby, for a fixed fee of £25, any existing shareholding in a UK listed company can be sold and the proceeds reinvested through the PEP.

For those investors who use a professional adviser, both Plans allow for commission of up to 3% to be paid direct to your adviser.

For information on how to invest through the Share Plan or the PEP please contact your financial adviser or call Fidelity free on 0800 41 41 15.

Fidelity only provides information on its products and does not give investment advice based on individual circumstances. Past performance is no guarantee of future returns. The value of investments and the income from them may fall as well as rise and an investor may not get back the amount invested. Tax credits on equity dividends will be reclaimable until April 1999. Transfer of PEP funds into an ISA may be subject to a maximum allowance. The value of tax savings and eligibility to invest in a PEP or an ISA will depend on individual circumstances. For the purpose of section 57 of the Financial Services Act 1986, the contents of this report have been approved by FII, regulated by IMRO and the Personal Investment Authority.

## Investor Information

---

**Annual General Meeting** - with this Report you will find an invitation to attend the AGM at 12.00 noon on 18 May 1998 and it is hoped that as many shareholders as possible, including those who hold their shares through the Share Plan and the PEP, will take this opportunity to meet the Directors and hear a report from the Investment Manager on the progress of your Company. The formal AGM notice can be found on page 34.

**Price Information** - the mid-market prices of the ordinary shares, warrants and Loan Stock are 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 0336 43 then 2287 (share price) or 1285 (warrant price) or 4783 (Loan Stock). The Reuters code for Fidelity European Values is FEVL.

**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 shares and warrants, acquired at the time of the Company's launch, is 95.90p for ordinary shares and 20.50p for warrants. These figures can be indexed in line with inflation and all UK individuals, under present legislation, are permitted to have £6,500 of capital gains in any tax year before being liable for capital gains tax.

**Financial Calendar** - the key dates in the Company's calendar for the year from 31 December 1997.

- 31 December 1997 - financial year end.
- 23 February 1998 - announcement of results.
- 11 March - publication of this Annual Report.
- 31 March - quarterly payment of Loan Stock interest.
- 30 April - exercise date on which warrant holders may choose, for each warrant held, to pay £1 for an ordinary share.
- 18 May - Annual General Meeting.
- 30 June - half year end.

30 June - quarterly payment of Loan Stock interest.

July - announcement of interim results to 30 June.

August - publication of Interim Report.

30 September - quarterly payment of Loan Stock interest.

31 December - quarterly payment of Loan Stock interest.

**Contact Information** - general enquiries should be made to Fidelity, the Investment Manager and Secretary, at the Company's registered office :-

Fidelity Investments International  
Investment Trust Division  
Beech Gate, Millfield Lane,  
Lower Kingswood, Tadworth, Surrey KT20 6RP.  
Fax : 01737 836892

Internet site : <http://www.fidelity.co.uk/fidinv.html>

Email address : [nicola.phillips@uk.fid-intl.com](mailto:nicola.phillips@uk.fid-intl.com)

Private investors can call free on 0800 41 41 15, 9am to 6pm, seven days a week.

Financial advisers can call free on 0800 41 41 81, 8am to 6pm, five days a week.

Existing shareholders who have specific queries regarding their holding, for example a change of address, should contact the appropriate administrator:-

Holders of ordinary shares, warrants or Loan Stock - the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone : 0181 639 2000

Share Plan investors - Fidelity Investment Trust Share Plan, Corporate Investment Services, Clydesdale Bank PLC, 150 Buchanan Street, Glasgow G1 2DY.

Telephone : 0800 41 41 20

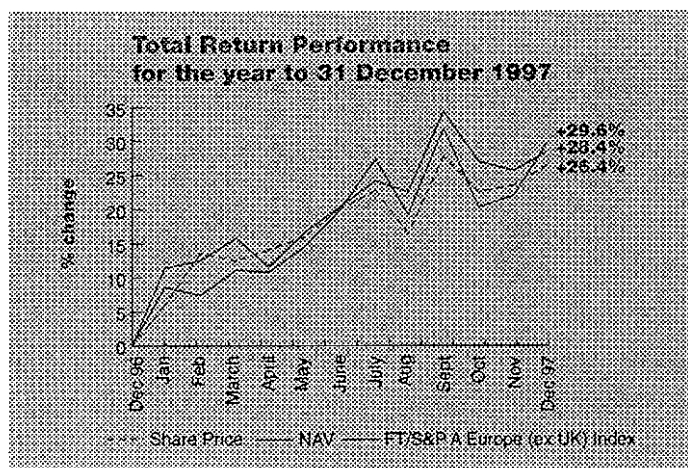
PEP investors - Fidelity, using the address or freephone numbers given above, or by writing to the European Service Centre, Fidelity Investments, Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ.

## Investment Manager's Report



**Anthony Bolton**  
Investment Manager

**Performance Review** - As shown in the Summary of Results on page 4, the NAV rose 28.4% (total return) marginally underperforming the benchmark index, the FT/S&P Actuaries Europe (ex UK) Index, which returned 29.6% (in sterling terms).



The strength of continental European stockmarkets during 1997 surprised many investors. This was the second year in which markets performed strongly. It was also the second consecutive year where the strength of sterling reduced returns for sterling based investors. The Swiss market returned 50.4%, Italy 49.4%, Spain 31.8% and Germany 27.4% (in local currency terms). In contrast, France returned 19.3%, Sweden 18.0% and Norway 14.6%.

Economic growth began to pick up during the year and broaden from the export sector to the consumer sector in most countries. The notable exception was Germany, where growth remained concentrated in the export sector and the consumer sector was weak. Despite stronger economic growth, inflation remained under control which

resulted in interest rates remaining stable for much of the year. In fact, the peripheral countries such as Italy and Spain continued to cut their interest rates ahead of EMU. It was only in September that stronger economic growth prompted a rise in interest rates in the 'core' countries of Germany, France, Austria and the Benelux countries.

The improved economic background led to equity analysts revising up their profits growth forecasts for many companies. However, towards the end of the year the profits outlook for companies which export to South East Asia deteriorated.

Another influential factor behind the rise in stockmarkets was continued corporate restructuring. This involves cutting costs, selling off non-core businesses, mergers and acquisitions. The number and size of mergers and acquisitions in the year rose to a record level. On a single day in October, and within the space of one hour, four mergers and two hostile takeovers were announced worth a total of \$80 billion. This came at a time when global equity markets were declining and helped to halt the decline in European stockmarkets.

Low interest rates and bond yields as well as the rise in equity markets encouraged some private investors to increase their holdings in European equities. European institutions also increased their exposure to the region.

**Portfolio Review** - The performance of the portfolio owed much to stock selection. In terms of geographical weightings, the portfolio was substantially underweight in Germany, which performed relatively well in the year, while the Nordic markets, in which the portfolio is overweight, were disappointing with the exception of Denmark. Nevertheless, in terms of net asset value, the portfolio only marginally underperformed the benchmark index.

A number of the largest holdings performed strongly during the year. Novartis (+61.3%), a Swiss pharmaceutical group, benefited from restructuring as well as strong sales growth. The banking sector in general performed well on expectations of restructuring and consolidation. A low interest rate and bond environment together with a gradual pick up

## Investment Manager's Report

in economic growth were also favourable to banks. The holdings which performed particularly well include **Société Générale** (+46.2%), **Credit Lyonnais** (+198.1%) (which has now been sold), **Sparbanken Sverige** (now known as **Forenings Sparbanken**) (+54.3%), **Credit Suisse** (+64.4%) and **Credito Italiano** (+227.4%). The announcement of mergers and acquisitions in the insurance sector also resulted in strong performance from **Union des Assurances Federales (UAF)** (+23.4% for last 6 months of 1997) and **Pohjola** (+95.2%). The share price of **Skandia** (+94.0%), a Swedish insurance company, rose as investors re-appraised the value of one of its businesses after a similar company had been listed in the US on a high valuation. **Telecom Italia Mobile** (+112.9), introduced a new product and contributed to investors revising up their growth prospects for the company. (All performance figures in local currency terms.)

Some of the smaller holdings also made a significant contribution to performance, namely **Autogrill** (+548.4%), an Italian chain of restaurants, **NCL Holdings** (+149.6%), a Norwegian cruise liner operator and **Data Modul** (+115.2%), a German electrical manufacturer.

**Portfolio Structure** - During the year, the proportion of the portfolio invested in large blue chip companies was increased to about 40%. This sector of the portfolio is relatively concentrated in that there are about 40 large blue chip holdings out of almost 150 holdings in total. Consequently, many of these holdings are found the largest in the portfolio.

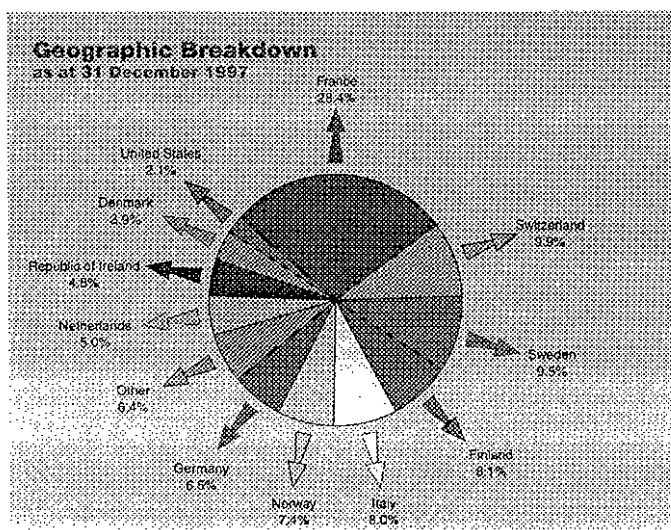
In terms of country allocation, there remains a strong bias towards peripheral markets. The Nordic markets account for 29.3% of total assets (1996 : 41.3%). Within the region, Norway now accounts for about 8.1% of assets compared to 15.7% a year ago and Finland has been increased to 8.1% (1996 : 6.7%). France represents the largest single country exposure by a considerable margin (28.4%), with six of the ten largest holdings being French companies. The low proportion of the portfolio invested in Germany is a result of the lack of attractive investment opportunities. Although corporate management are moving towards being more shareholder friendly, it is a slow process.

The major sector exposures are banks (19.1%), including 9.1% in Nordic banks, media (16.1%), insurance (10.3%), health and personal care (10.2%), electrical equipment (9.3%) and business services (4.1%).

A number of French companies were among the largest purchases during the year. The holding in **Société Générale**, a leading bank was increased. We believe the bank is one of the cheapest in Europe and management is restructuring operations to improve profitability. **UAF**, is a life insurance company which has two relatively small yet profitable non-life businesses. The shares are trading well below the value of the core business and there is also the prospect that **UAF** could be taken over. **Rhone Poulenc**, is a pharmaceutical company focusing on building up its core 'life sciences' business. **Cie des Machine Bull**, represents a restructuring and recovery story in the computer industry.

A number of holdings in the Norwegian banking, oil and shipping sectors were either sold or reduced in the year. Many of these holdings had performed well and the shares appeared fully valued. A number of large holdings in Sweden were also sold or reduced including, **Trygg Hansa**, (insurance company), **ICB Shipping**, (oil tanker operator), and **Stena Line** (ferry operator).

The exposure to Finland increased during the year, and the largest purchase was **Nokia**. Growth prospects for the company are improving. Sales of mobile phones, particularly in China, provide one area of growth while its infrastructure business is winning new contracts. The holding in **Nordbanken** (domestic bank) was switched for shares in



---

Merita, a financial services group which includes banking, property investment and insurance. Merita is merging with Nordbanken which should bring benefits in terms of new growth opportunities as well as a reduced cost base.

Other sizeable purchases included **Credito Italiano**, one of the strongest growing banks in Italy. The bank is benefiting from restructuring as well as strong loan growth in its domestic market. Another avenue of growth is demand for savings products in the form of mutual funds. Bank of Ireland is benefiting from strong growth in the domestic economy and this is feeding through to strong loan growth. The bank is also attractively valued. One of the largest purchases in Germany was **Bertelsmann**, a newspaper and periodicals publisher. The security held in the company is a debt instrument which pays a dividend each year depending on the profitability of the company. The current yield is high.

The holdings in the portfolio can also be defined by certain categories. These include turnaround or restructuring situations and include **Alcatel Alsthom** and **Credit Suisse**; unrecognised growth companies such as **DCC**, an Irish holding company with interests in computer services and **Skandia**, a Swedish insurance company; some holdings may become the subject of takeovers or similar corporate activity. These include **Sanofi**, which is partly owned by Elf Aquitaine and **UAF** where Credit Lyonnais has a large holding. Other categories are industry arbitrage where a company's share price appears to be cheap compared to similar companies in other markets - examples are **Thomson CSF** (a French defence company) and **TT Tieto** (a Finnish computer services group).

**Outlook** - The key event in Europe in 1998 will be the development of EMU. The initial participants are scheduled to be announced in May 1998 and at this stage it seems that there will be a broad membership, including Italy and Spain. Any set back in the EMU process would be very unsettling for markets, particularly the peripheral markets. Assuming the process goes ahead as planned, it seems very likely that growth in the peripheral markets could gather momentum creating inflationary pressures. This has important implications for stock selection in these countries.

*'The overall economic background in Europe remains positive with growth picking up and inflation remaining subdued.'*

For many investors the creation of a Euro zone (those countries that will be included in the first stage of EMU) may reduce the importance of country allocation in the investment decision and sector allocation may take on more importance. In addition, investors may differentiate increasingly between those companies which are shareholder friendly and those which are not. This would have repercussions in specific markets which are dominated by companies which have been slow to manage their businesses in the interest of shareholders.

The overall economic background in Europe remains positive with growth picking up and inflation remaining subdued. There would appear to be little upward pressure on interest rates. Corporate profits should continue to grow in the mid-teens and possibly more. Restructuring promises to remain a key theme in the year ahead with further large mergers and acquisitions expected. This background should continue to encourage retail and institutional investors to invest in European equities.

**Investment Policy** - As mentioned in the Chairman's Report, we have sought to clarify the geographical area in which the Company might invest. The Company will continue to invest principally in continental European countries (including Portugal, Greece and Turkey) and may also invest up to 15% of the Company's gross assets in Eastern European countries (Russia, Hungary, Poland, the Czech Republic and Estonia). The amount invested in Eastern Europe as at 31 January 1998 amounted to 1.4% and we do not have any immediate plans to increase this percentage significantly. In addition, a further 5% of gross assets may be invested outside Europe in companies which have some European exposure or connection.

Fidelity Investments International  
23 February 1998

# Portfolio Listing

as at 31 December 1997

| Holdings by value                                                                          | %†          |
|--------------------------------------------------------------------------------------------|-------------|
| <b>Novartis</b><br>Swiss pharmaceutical group                                              | 4.8         |
| <b>Société Générale</b><br>French bank                                                     | 3.4         |
| <b>Forenings Sparbanken (previously Sparbanken Sverige)</b><br>Swedish Bank                | 2.7         |
| <b>Telecom Italia di Risp</b><br>Italian telecommunications company                        | 2.6         |
| <b>Credit Suisse</b><br>Swiss bank                                                         | 2.4         |
| <b>Total B</b><br>French oil company                                                       | 2.2         |
| <b>Alcatel Alsthom</b><br>French telecommunications/power generation                       | 2.2         |
| <b>Sanofi</b><br>French pharmaceuticals/beauty products/perfume                            | 2.1         |
| <b>Union des Assurances Federales (UAF)</b><br>French insurance company                    | 2.0         |
| <b>Thomson CSF</b><br>French defence electronics company                                   | 2.0         |
| <b>Top 10 holdings</b>                                                                     | <b>26.4</b> |
| <b>DCC</b><br>Irish holding company                                                        | 2.0         |
| <b>Rhone Poulenc 'A'</b><br>French pharmaceutical and chemical group                       | 1.9         |
| <b>Skandia Forsaking</b><br>Swedish insurance provider with main operations in Scandinavia | 1.9         |
| <b>Nokia</b><br>Finnish manufacturer of mobile phones/telecommunications equip             | 1.8         |
| <b>International Service System B</b><br>Danish industrial cleaning company                | 1.8         |
| <b>Den Norske Bank A</b><br>Norwegian commercial bank                                      | 1.6         |
| <b>Merita</b><br>Finnish bank                                                              | 1.6         |
| <b>Bertlesmann Genusscheine</b><br>German media company                                    | 1.5         |
| <b>Pohjola</b><br>Finnish insurer                                                          | 1.5         |
| <b>Philips Electronics</b><br>Dutch consumer electronics and electrical group              | 1.4         |
| <b>Top 20 holdings</b>                                                                     | <b>43.4</b> |

|                                                                                      | %†          |
|--------------------------------------------------------------------------------------|-------------|
| <b>Fokus Banken</b><br>Regional bank in Western Norway                               | 1.4         |
| <b>TV4</b><br>Swedish television station                                             | 1.3         |
| <b>Credit Italiano</b><br>Italian bank                                               | 1.2         |
| <b>Italy 6.5% 28/6/2001</b><br>Italian insurance company convertible                 | 1.2         |
| <b>Telefonica de Espana</b><br>Spanish national telecommunications service provider  | 1.2         |
| <b>Fugro-McClelland</b><br>Dutch engineering consultant                              | 1.2         |
| <b>Cie des Machines Bull</b><br>French computer and electronics firm                 | 1.1         |
| <b>Bank of Ireland</b><br>Irish bank                                                 | 1.0         |
| <b>OPG-Apothekers Cooperatie</b><br>Dutch pharmaceutical distributor                 | 1.0         |
| <b>Danzas</b><br>Swiss transport and logistics services                              | 1.0         |
| <b>Top 30 holdings</b>                                                               | <b>55.0</b> |
| <b>Credit Commercial de France</b><br>French bank                                    | 0.9         |
| <b>Industrieverwaltungsgesellschaft (IVG)</b><br>German property and logistics group | 0.9         |
| <b>Swedish Match</b><br>Swedish tobacco company                                      | 0.9         |
| <b>WSOY</b><br>Finland's leading book publisher                                      | 0.8         |
| <b>NCL</b><br>Norwegian cruise operator                                              | 0.8         |
| <b>Sparebanken Nor</b><br>Norwegian savings bank                                     | 0.8         |
| <b>Wella</b><br>German hair products company                                         | 0.7         |
| <b>Telecom Italia Mobile RNC</b><br>Italian mobile telephone operator                | 0.7         |
| <b>Akzo Nobel</b><br>Dutch chemical and pharmaceutical group                         | 0.7         |
| <b>Intrum Justitia</b><br>Debt collector based in Luxembourg                         | 0.7         |
| <b>Top 40 holdings</b>                                                               | <b>62.9</b> |

† % of the value of investments

|                                                                | %†  |                                                               | %†           |
|----------------------------------------------------------------|-----|---------------------------------------------------------------|--------------|
| <b>Europolitan</b>                                             |     | <b>Tamro</b>                                                  |              |
| Swedish mobile telephone operator                              | 0.7 | Finnish pharmaceutical distributor                            | 0.5          |
| <b>Rinascente Savings</b>                                      |     | <b>Pechiney</b>                                               |              |
| Italian retail group                                           | 0.7 | French aluminium and packaging group                          | 0.5          |
| <b>Nordic American Tankship</b>                                |     | <b>Gehe</b>                                                   |              |
| Norwegian shipping company                                     | 0.7 | German pharmaceutical distributor with Europewide activities  | 0.5          |
| <b>Woodchester</b>                                             |     | <b>Metallgesellschaft</b>                                     |              |
| Irish consumer finance company                                 | 0.7 | German holding company                                        | 0.5          |
| <b>France Telecom</b>                                          |     | <b>Elcoteq Network</b>                                        |              |
| French telecommunications organisation                         | 0.7 | Finnish electronics group                                     | 0.4          |
| <b>Galeries Lafayette</b>                                      |     | <b>Electricidade de Portugal</b>                              |              |
| French department store group                                  | 0.6 | Portuguese electricity generator                              | 0.4          |
| <b>Cap Gemini</b>                                              |     | <b>Magyar Tavkozlesi ADR</b>                                  |              |
| French computer services                                       | 0.6 | Hungarian telecommunications group                            | 0.4          |
| <b>Reisebüro Kuoni</b>                                         |     | <b>Baywa Vinkuliert</b>                                       |              |
| Swiss travel agent, specialising in long-haul package holidays | 0.6 | German building materials/DIY store operator                  | 0.4          |
| <b>Editoriale L'Espresso</b>                                   |     | <b>Partek</b>                                                 |              |
| Italian newspaper group                                        | 0.6 | Finnish engineering group                                     | 0.4          |
| <b>Rue Imperiale</b>                                           |     | <b>Eurafrance</b>                                             |              |
| French financial holding company                               | 0.6 | French financial holding company                              | 0.4          |
| <b>Sydbank</b>                                                 |     | <b>Hachetter Filipacchi</b>                                   |              |
| Danish bank                                                    | 0.6 | French media group                                            | 0.4          |
| <b>Hemkopskedjan</b>                                           |     | <b>Hurriyet Gazete</b>                                        |              |
| Swedish supermarket group                                      | 0.6 | Turkish newspaper group                                       | 0.4          |
| <b>Eramet</b>                                                  |     | <b>Falck</b>                                                  |              |
| French mineral group                                           | 0.6 | Danish provider of security/emergency services                | 0.4          |
| <b>Sparebanken Rogaland</b>                                    |     | <b>Okobank</b>                                                |              |
| Norwegian regional savings bank                                | 0.6 | Finnish bank                                                  | 0.4          |
| <b>Gan</b>                                                     |     | <b>Scandic Hotels</b>                                         |              |
| French insurer                                                 | 0.6 | Swedish hotel group                                           | 0.4          |
| <b>Vimpel Communications ADR</b>                               |     | <b>Investec Consultadoria Nacional</b>                        |              |
| Russian mobile telephone company                               | 0.5 | Portuguese sports newspapers/women's magazine/television      | 0.4          |
| <b>SGS Thomson Microelectron</b>                               |     | <b>Autogrill</b>                                              |              |
| French semi-conductor manufacturer                             | 0.5 | Italian motorway service and restaurant group                 | 0.4          |
| <b>Toolex Alpha</b>                                            |     | <b>Tybring Gjedde</b>                                         |              |
| Dutch manufacturer of CD machines                              | 0.5 | Wholesale/cash and carry of consumables in Norway and Sweden  | 0.3          |
| <b>Safra Republic</b>                                          |     | <b>A-Presen</b>                                               |              |
| Swiss bank                                                     | 0.5 | Norwegian newspaper and television group                      | 0.3          |
| <b>Bona Shipholding</b>                                        |     | <b>Ascom Holding</b>                                          |              |
| Norwegian tanker fleet operator                                | 0.5 | Swiss manufacturer of communications and electronics products | 0.3          |
| <b>Elf Aquitaine</b>                                           |     | <b>Telecel Com Pessoais</b>                                   |              |
| French oil company                                             | 0.5 | Portuguese cellular telephone operator                        | 0.3          |
| <b>Foncier Financiere</b>                                      |     | <b>Rella</b>                                                  |              |
| Holding company for French car manufacturer                    | 0.5 | Unquoted Danish media group                                   | 0.3          |
| <b>Club Mediterranee</b>                                       |     | <b>Christian Dior</b>                                         |              |
| French holiday operator                                        | 0.5 | Haute couture and holding company                             | 0.3          |
| <b>NRJ</b>                                                     |     | <b>Thomson PTG</b>                                            |              |
| France's 3rd largest radio broadcaster                         | 0.5 | French aerospace and electronics firm                         | 0.3          |
| <b>Schibsted</b>                                               |     | <b>BHF-Bank</b>                                               |              |
| Largest newspaper publisher in Norway with television interest | 0.5 | German bank                                                   | 0.3          |
| <b>Deutsche Babcock &amp; Wilcox</b>                           |     | <b>Cegid</b>                                                  |              |
| German engineering group                                       | 0.5 | Computer services provider in France                          | 0.3          |
| <b>Danske Traelastkompagni</b>                                 |     | <b>IFI 'PRIV'</b>                                             |              |
| Danish timber importer and DIY store operator                  | 0.5 | Italian holding company                                       | 0.3          |
| <b>TT Tieto</b>                                                |     | <b>First Hungary Fund Unit 'A'</b>                            |              |
| Finnish computer group                                         | 0.5 | Fund investing in Hungarian companies                         | 0.3          |
| <b>Bilia</b>                                                   |     | <b>Moebel Walther</b>                                         |              |
| Swedish car distributor                                        | 0.5 | German furniture store operator                               | 0.3          |
| <b>Asko</b>                                                    |     |                                                               |              |
| Finnish manufacturer of building materials                     | 0.5 |                                                               |              |
| <b>Jefferson Smurfit</b>                                       |     |                                                               |              |
| Irish newspaper group                                          | 0.5 |                                                               |              |
|                                                                |     | <b>Top 100 holdings</b>                                       | <b>91.2</b>  |
|                                                                |     | <b>Other holdings (85)</b>                                    | <b>8.8</b>   |
|                                                                |     |                                                               | <b>100.0</b> |

† % of the value of investments

# Distribution of the Portfolio\*

as at 31 December

|                                          | France      | Switzerland | Sweden      | Finland     | Italy      | Norway     | Germany    | Netherlands | Republic of Ireland | Denmark    | United States | Other      | Total        | Index†       | 1996         |
|------------------------------------------|-------------|-------------|-------------|-------------|------------|------------|------------|-------------|---------------------|------------|---------------|------------|--------------|--------------|--------------|
| <b>Equities (including convertibles)</b> |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
| <b>Consumer Goods/Services</b>           |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
| Media                                    | 1.5         | -           | 2.0         | 2.3         | 4.0        | -          | 1.5        | -           | -                   | 0.5        | 1.3           | 2.9        | 18.0         | 1.8          | 15.9         |
| Health/Personal Care                     | 2.4         | 4.9         | -           | 0.5         | -          | -          | 1.2        | 1.0         | 0.2                 | -          | -             | -          | 10.2         | 10.9         | 8.9          |
| Business Services/Computer Software      | 1.2         | 1.0         | -           | 0.1         | -          | 0.2        | -          | 1.2         | -                   | 0.4        | -             | -          | 4.1          | 1.4          | 4.8          |
| Entertainment/Lesure/Toys                | 0.8         | 0.6         | 0.3         | -           | 0.4        | 0.8        | -          | -           | -                   | -          | -             | 0.1        | 3.0          | 0.5          | 1.8          |
| Retail Trade                             | 0.6         | -           | -           | -           | 0.7        | 0.3        | 0.3        | -           | -                   | -          | -             | 0.2        | 2.1          | 3.1          | 2.3          |
| Household Durables/Appliances            | 0.3         | -           | -           | -           | -          | -          | -          | 1.4         | -                   | -          | -             | -          | 1.7          | 0.5          | 1.1          |
| Beverage/Tobacco Manufacturers           | 0.2         | -           | 0.9         | -           | -          | -          | -          | -           | -                   | -          | -             | -          | 1.1          | 1.4          | 1.8          |
| Food/Grocery Products                    | -           | -           | 0.5         | -           | -          | 0.2        | -          | -           | -                   | -          | -             | -          | 0.7          | 5.0          | 1.6          |
| Textiles/Apparel                         | 0.6         | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | -          | 0.6          | 0.3          | 1.4          |
| Automobiles                              | -           | -           | 0.5         | -           | -          | -          | -          | -           | -                   | -          | -             | -          | 0.5          | 3.7          | 1.7          |
| Other                                    | 0.1         | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | -          | 0.1          | 0.5          | -            |
|                                          | 7.7         | 6.5         | 4.2         | 2.9         | 5.1        | 1.5        | 3.0        | 3.5         | 0.2                 | 0.9        | 1.3           | 3.2        | 40.1         | 29.1         | 41.3         |
| <b>Finance/Insurance</b>                 |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
| Banks - Commercial/Other                 | 4.6         | 2.9         | 2.7         | 2.1         | 1.2        | 4.2        | 0.3        | -           | 1.0                 | 0.1        | -             | -          | 19.1         | 16.7         | 14.9         |
| Insurance - Multi/Property               | 0.6         | -           | 0.2         | 0.8         | -          | -          | 1.8        | -           | -                   | 1.8        | -             | 0.1        | 5.3          | 10.0         | 3.8          |
| Insurance - Life                         | 2.6         | -           | 1.9         | -           | -          | -          | 0.5        | -           | -                   | -          | -             | -          | 5.0          | 1.5          | -            |
| Financial Institutions                   | 0.9         | -           | 0.2         | -           | 0.3        | -          | -          | -           | 0.7                 | 0.6        | -             | 0.8        | 3.5          | 1.5          | 5.1          |
| Real Estate                              | -           | -           | -           | -           | -          | -          | 0.2        | -           | -                   | -          | -             | 0.2        | 0.4          | 0.3          | 0.3          |
| Other                                    | -           | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | -          | -            | 1.6          | -            |
|                                          | 8.7         | 2.9         | 5.0         | 2.9         | 1.5        | 4.2        | 2.8        | -           | 1.7                 | 2.5        | -             | 1.1        | 33.3         | 31.6         | 24.1         |
| <b>Capital Goods</b>                     |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
| Electrical Equipment                     | 4.6         | 0.4         | -           | 2.3         | -          | -          | -          | -           | 2.0                 | -          | -             | -          | 9.3          | 3.2          | 3.2          |
| Computers/Office Equipment               | 1.1         | -           | -           | -           | -          | -          | -          | -           | -                   | -          | 0.1           | 0.6        | 1.8          | 2.3          | 3.3          |
| Electronics/Instruments                  | -           | -           | -           | -           | -          | -          | 0.2        | 0.5         | -                   | -          | -             | -          | 0.7          | 0.8          | 1.3          |
| Machinery/Engineering Services           | -           | 0.1         | -           | -           | 0.2        | 0.3        | -          | -           | -                   | -          | -             | -          | 0.6          | 1.7          | 0.8          |
| Aerospace/Defence                        | -           | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | 0.3        | 0.3          | 0.1          | 0.3          |
| Other                                    | -           | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | -          | -            | 4.1          | 12.2         |
|                                          | 5.7         | 0.5         | -           | 2.3         | 0.2        | 0.3        | 0.2        | 0.5         | 2.0                 | -          | 0.1           | 0.9        | 12.7         | 12.2         | 21.1         |
| <b>Basic Industries</b>                  |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
| Chemicals                                | 1.9         | -           | -           | -           | -          | -          | -          | 0.7         | -                   | -          | -             | -          | 2.6          | 4.5          | 1.8          |
| Construction/Building Materials          | 0.3         | -           | -           | -           | -          | -          | 0.5        | -           | -                   | 0.5        | -             | 0.3        | 1.6          | 2.0          | 2.1          |
| Mining - Metal/Minerals                  | 1.0         | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | -          | 1.0          | 1.8          | 0.3          |
| Precious Metals/Minerals                 | 0.5         | -           | -           | -           | -          | -          | -          | -           | 0.2                 | -          | -             | 0.1        | 0.8          | 0.2          | -            |
| Forestry/Paper Products                  | -           | -           | -           | -           | -          | -          | -          | 0.2         | 0.5                 | -          | -             | -          | 0.7          | 1.0          | 0.6          |
| Other                                    | -           | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | -          | -            | 0.3          | -            |
|                                          | 3.7         | -           | -           | -           | -          | -          | 0.5        | 0.9         | 0.7                 | 0.5        | -             | 0.4        | 6.7          | 9.6          | 4.8          |
| <b>Energy</b>                            |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
| Oil                                      | 2.6         | -           | 0.3         | -           | -          | 0.6        | -          | -           | 0.2                 | -          | -             | 0.1        | 3.8          | 8.1          | 2.3          |
| Other Energy                             | -           | -           | -           | -           | -          | 0.1        | -          | -           | -                   | -          | -             | -          | 0.1          | 0.2          | 1.9          |
|                                          | 2.6         | -           | 0.3         | -           | -          | 0.7        | -          | -           | 0.2                 | -          | -             | 0.1        | 3.9          | 8.3          | 4.2          |
| <b>Transport/Storage</b>                 |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
|                                          | -           | -           | -           | -           | -          | 0.7        | -          | -           | -                   | -          | 0.7           | -          | 1.4          | 1.1          | 4.1          |
| <b>Utilities</b>                         |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
|                                          | -           | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | 0.4        | 0.4          | 8.1          | 0.4          |
| <b>Closed End Funds</b>                  |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
|                                          | -           | -           | -           | -           | -          | -          | -          | -           | -                   | -          | -             | 0.3        | 0.3          | -            | -            |
| <b>Total Equities</b>                    | <b>28.4</b> | <b>9.9</b>  | <b>9.5</b>  | <b>8.1</b>  | <b>6.8</b> | <b>7.4</b> | <b>6.5</b> | <b>5.0</b>  | <b>4.8</b>          | <b>3.9</b> | <b>2.1</b>    | <b>6.4</b> | <b>98.8</b>  | <b>100.0</b> | <b>100.0</b> |
| <b>Bonds</b>                             |             |             |             |             |            |            |            |             |                     |            |               |            |              |              |              |
|                                          | -           | -           | -           | -           | 1.2        | -          | -          | -           | -                   | -          | -             | -          | 1.2          | -            | -            |
| <b>Total - 1997</b>                      | <b>28.4</b> | <b>9.9</b>  | <b>9.5</b>  | <b>8.1</b>  | <b>8.0</b> | <b>7.4</b> | <b>6.5</b> | <b>5.0</b>  | <b>4.8</b>          | <b>3.9</b> | <b>2.1</b>    | <b>6.4</b> | <b>100.0</b> |              |              |
| <b>Total - 1996</b>                      | <b>20.5</b> | <b>10.1</b> | <b>14.0</b> | <b>15.7</b> | <b>6.7</b> | <b>3.8</b> | <b>6.9</b> | <b>4.1</b>  | <b>3.4</b>          | <b>4.9</b> | <b>4.8</b>    | <b>5.1</b> |              |              | <b>100.0</b> |

\* % of the value of investments - see note 10, page 27

† EFTS&P Actives Europe (ex UK) Index

## Board of Directors



**left to right:**

Frans van den Hoven, Albert Francke,  
Barry Bateman, Robert Walther,  
Sir Charles Fraser (Chairman)

All of the Directors are non-executive and, with the exception of Mr Bateman, are also independent.

**Sir Charles Fraser KCVO (Chairman)\* (age 69)**

is a Director of a number of companies including Scottish Media Group and Stakis PLC. He has extensive experience of the investment industry where his directorships include British Assets Trust PLC and other funds in the Fidelity Group of International Funds.

**Barry Bateman (age 52)**

is President of Fidelity International Limited and a Director of Fidelity Special Values PLC, Fidelity Japanese Values PLC and of a number of companies in the Fidelity organisation. He joined Fidelity in 1981 having previously been Research Director at Hoare Govett and Marketing Director at Datastream. He is a former Chairman of the Association of Unit Trusts and Investment Funds.

**Albert Francke\* (age 63)**

is a Director and Chairman of the audit committee of the Foreign and Colonial Emerging Middle East Fund. Formerly Chairman of Curtis, Mallet-Prevost, Colt & Mosle, a New York law firm with extensive experience in the international investment business; presently of counsel to that firm.

**Helmut Frans van den Hoven KBE\* (age 74)**

was chairman of Unilever NV and President of the International Chamber of Commerce. His non-executive directorships include a number of funds in the Fidelity Group of International Funds.

**Robert Walther\* (age 54)**

is group chief executive of Clerical Medical Investment Group. He joined the group in 1965 and was appointed investment manager in 1976. He was appointed assistant general manager (investments) in June 1980 and investment director in April 1985. He became group chief executive in April 1995. He is a Fellow of the Institute of Actuaries and an associate of the Institute of Investment Management and Research.

\* members of the Audit and Management Engagement Committees

## Directors' Report

---

The Directors have pleasure in presenting their report together with the audited accounts of the Company for the year ended 31 December 1997.

The Company was incorporated in England and Wales as a public limited company on 16 August 1991 under the name of Fidelity European Values PLC with the registered number 2638812.

### 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 2 and 3 and in the Investment Manager's Report on pages 7 to 9.

The Inland Revenue has approved the Company as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting periods to 31 December 1996. 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 not a close company and has no employees. It is registered as an investment company as defined in Section 266 of the Companies Act 1985 and operates as such.

### Net Asset Value

Investments were valued at £217,440,000 as at 31 December 1997. Shareholders' funds amounted to £181,428,000 resulting in a net asset value per share of 315.81p. Changes to investments are shown in note 10 to the accounts.

### Results and Dividends

The amount available for distribution as dividend is £473,000, as shown on page 20. The Directors recommend the payment of a foreign income dividend of 0.60p, payable on 19 May 1998 to shareholders on the register at close of business on 14 April 1998 (ex dividend date 6 April 1998).

### Statement of Recommended Practice (SORP)

With the exception of the matter referred to in note 13 on page 29, the Company has adopted the SORP for Financial Statements of Investment Trust Companies for the year ended 31 December 1997.

### Share Capital

On 30 April 1997, 345,105 ordinary shares of 25p per share were issued and allotted, fully paid at a price of 100p, following an exercise of warrants.

On 15 July 1997, a further 16,786 ordinary shares of 25p per ordinary share were issued and allotted, fully paid at a price of 274.00p per share, in respect of shares acquired through the Fidelity Investment Trust Share Plan.

As at 31 December 1997, the total number of shares in issue was 57,449,314.

### Warrants

Following the Company's announcement on 10 November 1997 of its intention to purchase its own warrants for cancellation, the following purchases have been made:

| Date of purchase | number of warrants | price per warrant |
|------------------|--------------------|-------------------|
| 13 November 1997 | 50,000             | 168.50p           |
| 18 November 1997 | 350,000            | 175.00p           |
| 28 November 1997 | 100,000            | 174.00p           |

As at 31 December 1997, there were 9,405,301 warrants in issue (1996: 10,250,406).

Registered holders of warrants should note that the next annual subscription date is 30 April 1998. In order to exercise the subscription rights in whole or in part:-

- (i) in respect of warrants held in certificated form on any subscription date, the warrant holder must lodge the warrant certificate(s), having completed a Notice of Exercise of subscription rights, at the office of the Registrars from 2 March 1998 to 3.00 pm on 30 April

1998. The warrant certificate and notice of exercise should be accompanied by a remittance for the aggregate amount payable on subscription for the ordinary shares in respect of which the subscription rights are being exercised;

- (ii) in respect of warrants held in uncertificated form on any subscription date, an uncertificated subscription notice and, if appropriate, separate payment in respect of the aggregate subscription price for the ordinary shares arising on the exercise of the subscription rights must be received by the Company or by such person as it may specify, at any time during the relevant subscription period. Further details will be given in the notice to warrant holders reminding them of their subscription rights.

Warrant holders should note that this is a right, as opposed to an obligation, and they should contact their financial adviser if they have any queries.

### **Personal Equity Plans (PEPs)**

The Company has managed its affairs in such a way that the ordinary shares qualify for inclusion in a PEP up to the maximum amount of £6,000 per annum. The Company intends to conduct its affairs in such a way as to enable the ordinary shares to continue to qualify for inclusion in a PEP. It is currently expected that PEPs will cease to exist in October 1999 and be replaced by Individual Savings Accounts (ISAs). The value of tax savings and eligibility to invest in a PEP or an ISA will depend upon individual circumstances and all tax rules may change in the future.

### **Political and Charitable Donations**

The Company has not made any political or charitable donations in the year.

### **Payment of Creditors**

The Company's policy for the year to 31 December 1998, 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.

### **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 entered into on 7 October 1991, which is terminable by either party at any time by the giving of one year's notice in writing. The agreement provides for a fee at the rate of 1% per annum (plus VAT) of the value of the total assets under management (as defined in the Management Agreement), calculated and payable quarterly in arrears, as of the last business day of March, June, September and December in each year. In computing total assets the value of any investment in any fund which is managed by the Manager, or an Associate of the Manager, is excluded. Secretarial and accounting services are charged at a fixed fee of £25,000 per annum. The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Investment Trust Personal Equity Plan under an agreement dated 4 March 1996. The amount payable under this agreement for the year to 31 December 1997 was £146,000.

An amount of £811,000 was due to the Manager under the above agreements at 31 December 1997 (1996 : £610,320) and is included in creditors.

The Manager uses certain services which are paid for, or provided, by various brokers. In return it places business, which may include transactions relating to the Company, with these brokers.

The Manager has an arrangement with selected brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce expenses.

## Directors' Report

Amounts received by the Company under this arrangement are offset against other expenses (see note 4 to the accounts on page 25).

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

Mr Barry R J Bateman is a director of Fidelity Investments International. Sir Charles Fraser and Mr van den Hoven hold directorships in a number of other Fidelity funds.

Fidelity International Limited has an interest of 826,115 shares and 38,827 warrants in the Company.

### Directors

All of the Directors named below served as Directors throughout the year to 31 December 1997. Mr van den Hoven retires by rotation and will not be seeking re-election at the forthcoming Annual General Meeting

No Director is under 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 was significant in relation to the Company's business, except as disclosed above under the heading of "Management Company". Except as disclosed above, there have been no related party transactions requiring disclosure under FRS8.

Mr Bateman has waived his entitlement to Directors' fees.

The interests of the Directors in the ordinary shares and warrants of the Company as at 31 December 1997 and 31 December 1996 were as follows:

|                             | 31 December 1997 |          | 31 December 1996 |          |
|-----------------------------|------------------|----------|------------------|----------|
|                             | shares           | warrants | shares           | warrants |
| Sir Charles Fraser          | 5,631            | 1,126    | 5,631            | 1,126    |
| Barry Bateman               | 7,574            | 1,503    | 7,556            | 1,503    |
| Albert Francke              | 6,053            | 210      | 6,053            | 210      |
| Helmert Frans van den Hoven | 3,000            | 600      | 3,000            | 600      |
| Robert Walther              | 2,501            | 250      | 1,251            | 250      |

There have been no changes in these holdings since the year end.

### Substantial Share Interests

As at 23 February 1998 notification had been received of the following interests in 3% or more of the issued share capital of the Company:

|                               | %    |
|-------------------------------|------|
| Fidelity Securities Limited * | 27.0 |
| Halifax plc                   | 4.4  |

### Analysis of Ordinary Shareholders as at 31 December 1997

|                               | Number of Shareholders | % of Issued Share Capital |
|-------------------------------|------------------------|---------------------------|
| Nominee Companies **          | 1,388                  | 40.6                      |
| Individuals *                 | 8,340                  | 37.1                      |
| Assurance/Insurance Companies | 34                     | 9.6                       |
| Bank and Bank Nominees        | 26                     | 5.0                       |
| Investment Trusts & Funds     | 25                     | 3.1                       |
| Limited Companies             | 122                    | 2.5                       |
| Pension Funds                 | 7                      | 1.5                       |
| Others                        | 38                     | 0.6                       |
| Total                         | 9,980                  | 100.0                     |

\* Includes Share Plan and PEP shareholders.

\*\* Nominees may also include individual Shareholders

### 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 will provide the Directors with the flexibility to issue further ordinary shares if they deem it appropriate to do so. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders.

Resolution 4 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £4,787,442. If passed, this

resolution will enable the Directors to allot a maximum of 19,149,771 ordinary shares which represents approximately one-third of the issued ordinary share capital of the Company as at 31 January 1998.

This authority provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares should any favourable opportunities arise to the advantage of shareholders. If new ordinary shares are allotted for cash, Section 89(1) of the Companies Act 1985 requires such new shares to be offered to existing holders of ordinary shares ('pre-emption rights'). In certain circumstances it is beneficial for the Directors to allot shares for cash otherwise than pro-rata to existing shareholders and the Companies Act 1985 provides for shareholders to give such power to the Directors by waiving their pre-emption rights.

Resolution 5 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues where practical considerations, such as fractions and foreign securities laws, make this desirable and (b) other issues up to an aggregate nominal value of £718,116 (5%).

The authority conferred by Resolution 5 is limited as regards issues of shares other than by way of rights issues to 5 per cent of the issued ordinary share capital of the Company as at 31 January 1998, amounting to 2,872,465 ordinary shares. The Directors would not issue ordinary shares pursuant to this power at less than the then current fully-diluted net asset value per share.

The authority to issue ordinary shares for cash under Resolution 5 will enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan and the Fidelity Investment Trust Personal Equity Plan in the event that the ordinary shares are trading at a premium to their net asset value. The Directors would not intend to use this power unless such premium were in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

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 34 and 35.

## **Corporate Governance**

The Company has established procedures to comply with the Code of Best Practice included in the Cadbury Committee Report on the financial aspects of Corporate Governance issued in December 1992. In the Directors' view, for the year ended 31 December 1997, the Company has complied with all aspects of the Code. The Board comprises wholly non-executive Directors and meets regularly throughout the year. A majority of the Directors are independent of the Company's investment manager. In addition, the Company has adopted the recommendations for Best Practice on Corporate Governance for investment trust companies prepared by the Association of Investment Trust Companies.

Separate committees consisting of all independent Directors (ie Sir Charles Fraser and Messrs Francke, van den Hoven and Walther) of the Company have been established with written terms of reference to consider audit and management engagement issues.

All matters which are not delegated to the Company's Manager and administrators under the Investment Management Agreement are reserved for the Board's decision and a procedure has been adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

## **Internal Control**

The Directors are responsible for the internal financial control systems of the Company and for monitoring their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication and that the assets of the Company are safeguarded.

## Directors' Report

---

The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance.

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

The Investment Manager has established an internal control framework to provide reasonable assurance on the effectiveness of internal financial controls. The effectiveness of the internal financial controls is assessed by the Investment Manager's compliance and internal audit departments on a continuing basis.

The Company's Audit Committee meets with representatives of the Investment Manager and receives reports upon the quality and effectiveness of the accounting records and management information maintained on behalf of the Company. It reviews the annual and interim accounts and reviews the nature and scope of the external audit and the findings from the Company's statutory audit. These systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. By the procedures set out above, the Directors have kept under review the effectiveness of the internal financial controls throughout the period.

### Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as 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.

### Reporting

The Auditors, Coopers & Lybrand, have reported to the Company that in their opinion the Directors' comments above, on internal financial control and going concern, provide the disclosures required by the listing rules of the London Stock Exchange and such statements and are not inconsistent with the information of which they are aware from their audit work on the accounts, and the statements above appropriately reflect the Company's compliance with the other paragraphs of the Code specified for their review by listing rule 12.43(j). They have not carried out the additional work necessary to, and do not, express any opinion on the effectiveness of either the Company's systems of internal financial control or its corporate governance procedures, nor the ability of the Company to continue in operational existence.

### Statement of Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year 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 accounts, the Directors are required to:

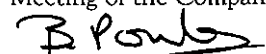
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts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

---

The Directors are responsible for ensuring that 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 accounts 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.

### **Auditors**

The Auditors, Coopers & Lybrand, Chartered Accountants and Registered Auditors, are willing to continue in office and, in accordance with Section 385 and Section 390A of the Companies Act 1985, resolutions concerning their remuneration and re-appointment will be submitted at the Annual General Meeting of the Company.



By Order of the Board

Fidelity Investments International

Secretary

23 February 1998

# Statement of Total Return

(incorporating the revenue account\*) of the company for the year ended 31 December

|                                                                                                 |       | 1997             |                  |                | 1996             |                  |                |
|-------------------------------------------------------------------------------------------------|-------|------------------|------------------|----------------|------------------|------------------|----------------|
|                                                                                                 | notes | revenue<br>£'000 | capital<br>£'000 | total<br>£'000 | revenue<br>£'000 | capital<br>£'000 | total<br>£'000 |
| Gains on investments                                                                            | 10    | -                | 50,332           | 50,332         | -                | 18,325           | 18,325         |
| Income                                                                                          | 2     | 4,447            | -                | 4,447          | 3,856            | -                | 3,856          |
| Investment management fee                                                                       | 3     | (2,362)          | -                | (2,362)        | (1,765)          | -                | (1,765)        |
| Other expenses                                                                                  | 4     | (431)            | -                | (431)          | (359)            | -                | (359)          |
| Exchange losses                                                                                 |       | -                | (941)            | (941)          | -                | (228)            | (228)          |
| Cost of Loan Stock issue                                                                        |       | -                | (85)             | (85)           | -                | -                | -              |
| Cost of warrant repurchases                                                                     |       | -                | (667)            | (667)          | -                | -                | -              |
| <b>Net return before finance costs and taxation</b>                                             |       | <b>1,654</b>     | <b>48,639</b>    | <b>50,293</b>  | <b>1,732</b>     | <b>18,097</b>    | <b>19,829</b>  |
| Interest payable                                                                                | 6     | (702)            | -                | (702)          | (648)            | -                | (648)          |
| Revaluation of Loan Stock                                                                       | 13    | -                | (8,290)          | (8,290)        | -                | (1,581)          | (1,581)        |
| <b>Return on ordinary activities before tax</b>                                                 |       | <b>952</b>       | <b>40,349</b>    | <b>41,301</b>  | <b>1,084</b>     | <b>16,516</b>    | <b>17,600</b>  |
| Tax on ordinary activities                                                                      | 7     | (479)            | -                | (479)          | (422)            | -                | (422)          |
| <b>Return on ordinary activities after tax for the year attributable to equity shareholders</b> |       | <b>473</b>       | <b>40,349</b>    | <b>40,822</b>  | <b>662</b>       | <b>16,516</b>    | <b>17,178</b>  |
| Dividends                                                                                       | 8     | (345)            | -                | (345)          | (343)            | -                | (343)          |
| <b>Transfer to reserves</b>                                                                     |       | <b>128</b>       | <b>40,349</b>    | <b>40,477</b>  | <b>319</b>       | <b>16,516</b>    | <b>16,835</b>  |
| <b>Return per ordinary share</b>                                                                | 9     |                  |                  |                |                  |                  |                |
| Basic                                                                                           |       | 0.83p            | 70.39p           | 71.22p         | 1.26p            | 31.42p           | 32.68p         |
| Fully-diluted                                                                                   |       | 1.47p            | 63.00p           | 64.47p         | 1.84p            | 26.64p           | 28.48p         |

\* The revenue column of this statement is the profit and loss account of the Company.  
All revenue and capital items in the above statement derive from continuing operations.  
No operations were acquired or discontinued in the year.

The notes on pages 23 to 32 form an integral part of these accounts

# Balance Sheet

as at 31 December

|                                               |       | 1997           | 1996           |
|-----------------------------------------------|-------|----------------|----------------|
|                                               | notes | £'000          | £'000          |
| <b>Fixed asset investments</b>                |       |                |                |
| Investments                                   | 10    | 217,440        | 164,463        |
| <b>Current assets</b>                         |       |                |                |
| Debtors - amounts falling due within one year | 11    | 4,364          | 1,511          |
| Cash at bank and on short-term deposit        |       | 1,797          | 2,329          |
|                                               |       | <b>6,161</b>   | <b>3,840</b>   |
| <b>Creditors</b>                              |       |                |                |
| amounts falling due within one year           | 12    | (3,138)        | (1,313)        |
| <b>Net current assets</b>                     |       | <b>3,023</b>   | <b>2,527</b>   |
| <b>Total assets less current liabilities</b>  |       | <b>220,463</b> | <b>166,990</b> |
| <b>Creditors</b>                              |       |                |                |
| amounts falling due after more than one year  |       |                |                |
| Equity Index-Linked Unsecured Loan Stock      | 13    | (39,035)       | (26,226)       |
| <b>Total net assets</b>                       |       | <b>181,428</b> | <b>140,764</b> |
| <b>Capital and reserves</b>                   |       |                |                |
| Called up share capital                       | 14    | 14,362         | 14,272         |
| Share premium account                         | 15    | 50,234         | 49,792         |
| Other reserves                                |       |                |                |
| Warrant reserve                               | 15    | 3,840          | 4,185          |
| Capital reserve - realised                    | 15    | 92,512         | 61,179         |
| Capital reserve - unrealised                  | 15    | 19,397         | 10,381         |
| Revenue reserve                               | 15    | 1,083          | 955            |
| <b>Total equity shareholders' funds</b>       | 17    | <b>181,428</b> | <b>140,764</b> |
| <b>Net asset value per ordinary share:</b>    | 16    |                |                |
| Basic                                         |       | <b>315.81p</b> | 246.58p        |
| Fully-diluted                                 |       | <b>285.45p</b> | 224.26p        |

The accounts on pages 20 to 32 were approved by the Board of Directors on 23 February 1998 and were signed on its behalf by:



Sir Charles Fraser, Chairman

The notes on pages 23 to 32 form an integral part of these accounts

# Cash Flow Statement

for the year ended 31 December

|                                                                              |       | 1997         | 1996           |
|------------------------------------------------------------------------------|-------|--------------|----------------|
|                                                                              | notes | £'000        | £'000          |
| <b>Operating activities</b>                                                  |       |              |                |
| Investment income received                                                   |       | 2,578        | 2,250          |
| Deposit interest received                                                    |       | 198          | 213            |
| Underwriting commission received                                             |       | 3            | -              |
| Investment management fee paid                                               |       | (2,192)      | (1,696)        |
| Directors' fees paid                                                         |       | (28)         | (29)           |
| Other cash payments                                                          |       | (329)        | (245)          |
| <b>Net cash inflow from operating activities</b>                             | 20    | <b>230</b>   | <b>493</b>     |
| <b>Returns on investments and servicing of finance</b>                       |       |              |                |
| Interest paid                                                                |       | (563)        | (546)          |
| <b>Net cash outflow from returns on investments and servicing of finance</b> |       | <b>(563)</b> | <b>(546)</b>   |
| <b>Taxation</b>                                                              |       |              |                |
| Overseas tax recovered                                                       |       | 281          | 215            |
| UK income tax recovered                                                      |       | 418          | -              |
| UK income tax paid                                                           |       | (134)        | (143)          |
| ACT paid                                                                     |       | -            | (78)           |
| <b>Tax recovered/(paid)</b>                                                  |       | <b>565</b>   | <b>(6)</b>     |
| <b>Financial investment</b>                                                  |       |              |                |
| Purchase of investments                                                      |       | (113,264)    | (105,109)      |
| Realised currency profits/(losses)                                           |       | 2,713        | (3,083)        |
| Disposals of investments                                                     |       | 109,830      | 102,563        |
| <b>Net cash outflow from financial investment</b>                            |       | <b>(721)</b> | <b>(5,629)</b> |
| <b>Equity dividend paid</b>                                                  |       | <b>(343)</b> | <b>(313)</b>   |
| <b>Financing</b>                                                             |       |              |                |
| Issue of Equity Index-Linked Loan Stock                                      |       | 4,519        | -              |
| Cost of issue of Equity Index-Linked Loan Stock                              |       | (85)         | -              |
| Proceeds on issue of ordinary shares and warrants                            |       | 46           | 571            |
| Proceeds of conversion of warrants                                           |       | 345          | 228            |
| Cost of warrant repurchases                                                  |       | (871)        | -              |
| <b>Net cash inflow from financing</b>                                        | 19    | <b>3,954</b> | <b>799</b>     |
| <b>Increase/(decrease) in cash</b>                                           | 18    | <b>3,122</b> | <b>(5,202)</b> |

The notes on pages 23 to 32 form an integral part of these accounts

# Notes to the Accounts

---

## 1. Accounting policies

A summary of the accounting policies used is set out below. The Company has adopted the AITC Statement of Recommended Practice (SORP) dated December 1995 with the exception of the matter referred to in note 13.

- a) The accounts have been prepared in accordance with applicable accounting standards 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) In accordance with FRS4, a warrant reserve has been established.
- c) Income from equity investments is credited to the revenue account on the date on which it is ex dividend. Interest receivable on fixed interest securities is accounted for on an accruals basis. Franked and unfranked investment income include the imputed tax credits or taxes deducted at source. Interest receivable on short-term loans and deposits, interest payable and expenses of management are dealt with on an accruals basis. Where the Company has elected to receive its dividends in the form of additional shares rather than in 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 in capital reserves.
- d) 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.
- e) Listed investments are valued at middle market prices. Unlisted investments are valued at market prices ruling on that date where an organised market in such investments exists, other unquoted investments are included at Directors' valuation. 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 arms 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.
- f) All expenses are accounted for on an accruals basis and are charged in full to the revenue account within the Statement of Total Return.
- g) The Equity Index-Linked Unsecured Loan Stock 2001 is revalued by reference to the FT/S&P Actuaries Europe (ex UK) Index; the difference arising is taken to non-distributable reserves. (Refer to note 13 on page 29.)
- h) Advance corporation tax on dividends paid and proposed at the balance sheet date is written off, except to the extent that it is expected to be recovered against mainstream corporation tax or by way of a refund under FID legislation. Overseas withholding tax is written off if it is not considered recoverable.
- i) Gains and losses on the realisation of investments and realised exchange differences of a capital nature are accounted for in the capital reserve - realised.

Increases and decreases in the valuation of investments held at the year end and unrealised exchange differences of a capital nature are accounted for in the capital reserve - unrealised.

## Notes to the Accounts

### 2. Income

|                                | 1997<br>£'000 | 1996<br>£'000 |
|--------------------------------|---------------|---------------|
| <b>Revenue income</b>          |               |               |
| <b>Income from investments</b> |               |               |
| Overseas dividends             | 3,942         | 3,300         |
| Fixed interest                 | 47            | 13            |
| Scrip dividends                | 253           | 370           |
|                                | <b>4,242</b>  | <b>3,683</b>  |
| <b>Other income</b>            |               |               |
| Deposit interest               | 202           | 173           |
| Underwriting commission        | 3             | -             |
|                                | <b>205</b>    | <b>173</b>    |
| <b>Total income</b>            | <b>4,447</b>  | <b>3,856</b>  |
| <b>Total income comprises</b>  |               |               |
| Dividends                      | 4,195         | 3,670         |
| Interest                       | 249           | 186           |
| Underwriting commission        | 3             | -             |
|                                | <b>4,447</b>  | <b>3,856</b>  |
| <b>Income from investments</b> |               |               |
| Listed overseas                | 4,236         | 3,679         |
| Unlisted                       | 6             | 4             |
|                                | <b>4,242</b>  | <b>3,683</b>  |

### 3. Investment management fee

|                           | 1997<br>£'000 | 1996<br>£'000 |
|---------------------------|---------------|---------------|
| Investment management fee | 2,116         | 1,581         |
| Irrecoverable VAT thereon | 246           | 184           |
|                           | <b>2,362</b>  | <b>1,765</b>  |

A summary of the terms of the Management Agreement is given in the Directors' Report on page 15.

#### 4. Other expenses

|                               | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------|---------------|---------------|
| Directors' fees (note 5)      | 36            | 36            |
| Other                         | 382           | 307           |
| Expense reduction*            | (2)           | -             |
| Auditors' remuneration        |               |               |
| Audit                         | 12            | 12            |
| Other services to the Company | 3             | 4             |
|                               | <u>431</u>    | <u>359</u>    |

The Company employed no staff and therefore has no staff costs (1996: nil).

\* The Manager has an arrangement with selected brokers whereby a portion of commissions from security transactions may be paid to the Company to reduce expenses.

#### 5. Directors' fees

|                 | 1997<br>£'000 | 1996<br>£'000 |
|-----------------|---------------|---------------|
| Directors' fees | 36            | 36            |

One Director waived his fee of £7,500 per annum for the year to 31 December 1997.

Mr Robert Walther's emoluments were paid directly to Clerical Medical Investment Group on his behalf.

#### 6. Interest payable

|                                          | 1997<br>£'000 | 1996<br>£'000 |
|------------------------------------------|---------------|---------------|
| Repayable within 5 years                 |               |               |
| Bank overdraft                           | 6             | 11            |
| Equity Index-Linked Unsecured Loan Stock | 696           | 637           |
|                                          | <u>702</u>    | <u>648</u>    |

## Notes to the Accounts

### 7. Tax on ordinary activities

|                                     | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------------|---------------|---------------|
| UK Corporation Tax                  | 322           | 365           |
| Relief for overseas withholding tax | (322)         | (365)         |
|                                     | -             | -             |
| Overseas taxation                   | 479           | 422           |
|                                     | <u>479</u>    | <u>422</u>    |

### 8. Dividends

|                                                                              | 1997<br>£'000 | 1996<br>£'000 |
|------------------------------------------------------------------------------|---------------|---------------|
| Final proposed foreign income dividend of 0.60 pence per share (1996: 0.60p) | <u>345</u>    | <u>343</u>    |

### 9. Return per ordinary share

|               | revenue      | 1997<br>capital | total         | revenue      | 1996<br>capital | total         |
|---------------|--------------|-----------------|---------------|--------------|-----------------|---------------|
| Basic         | 0.83p        | 70.39p          | 71.22p        | 1.26p        | 31.42p          | 32.68p        |
| Fully-diluted | <u>1.47p</u> | <u>63.00p</u>   | <u>64.47p</u> | <u>1.84p</u> | <u>26.64p</u>   | <u>28.48p</u> |

Returns per ordinary share are based on the net revenue on ordinary activities after taxation of £473,000 (1996: £662,000), and the capital appreciation in the year of £40,349,000 (1996: £16,516,000) and on 57,319,069 ordinary shares (1996: 52,570,279), being the weighted average number of ordinary shares in issue during the year.

The fully-diluted returns have been calculated on the assumption that the warrants in issue were converted on the first day of the financial period. The revenue and capital return includes the income return and appreciation in value, respectively, from the deemed proceeds in 2.5% Consolidated Stock, from that date. The comparative fully-diluted revenue return for 1996 has been restated.

## 10. Investments

|                                                | 1997<br>£'000               | 1996<br>£'000     |                |
|------------------------------------------------|-----------------------------|-------------------|----------------|
| Listed overseas                                | 215,319                     | 162,572           |                |
| <b>Total listed investments</b>                | <b>215,319</b>              | <b>162,572</b>    |                |
| Unlisted investments - Directors' valuation    | 2,121                       | 1,891             |                |
|                                                | <b>217,440</b>              | <b>164,463</b>    |                |
|                                                |                             |                   |                |
|                                                | listed<br>overseas<br>£'000 | unlisted<br>£'000 | total<br>£'000 |
| Opening book cost                              | 144,831                     | 1,941             | 146,772        |
| Opening unrealised appreciation/(depreciation) | 17,741                      | (50)              | 17,691         |
| <b>Opening valuation</b>                       | <b>162,572</b>              | <b>1,891</b>      | <b>164,463</b> |
| <b>Movements in the year</b>                   |                             |                   |                |
| Purchases at cost                              | 114,985                     | 64                | 115,049        |
| Sales - proceeds                               | (111,960)                   | (444)             | (112,404)      |
| - realised gains on sales                      | 29,176                      | 196               | 29,372         |
| Increase in unrealised appreciation            | 20,546                      | 414               | 20,960         |
| <b>Closing valuation</b>                       | <b>215,319</b>              | <b>2,121</b>      | <b>217,440</b> |
|                                                |                             |                   |                |
| Closing book cost                              | 177,032                     | 1,757             | 178,789        |
| Closing unrealised appreciation                | 38,287                      | 364               | 38,651         |
|                                                | <b>215,319</b>              | <b>2,121</b>      | <b>217,440</b> |
|                                                |                             |                   |                |
|                                                | 1997<br>£'000               | 1996<br>£'000     |                |
| Realised gains on sales                        | 29,372                      | 24,452            |                |
| Increase/(decrease) in unrealised appreciation | 20,960                      | (6,127)           |                |
| <b>Gains on investments</b>                    | <b>50,332</b>               | <b>18,325</b>     |                |

## Notes to the Accounts

### 11. Debtors

|                                       | 1997<br>£'000 | 1996<br>£'000 |
|---------------------------------------|---------------|---------------|
| Securities sold for future settlement | 3,011         | 437           |
| Taxation recoverable                  | 1,166         | 969           |
| Other debtors                         | 187           | 105           |
|                                       | <b>4,364</b>  | <b>1,511</b>  |

### 12. Creditors : amounts falling due within one year

|                                            | 1997<br>£'000 | 1996<br>£'000 |
|--------------------------------------------|---------------|---------------|
| Securities purchased for future settlement | 1,753         | 222           |
| Proposed dividends                         | 345           | 343           |
| Accruals                                   | 868           | 662           |
| Taxation payable                           | 172           | 86            |
|                                            | <b>3,138</b>  | <b>1,313</b>  |

### 13. Equity Index-Linked Unsecured Loan Stock 2001

|                               | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------|---------------|---------------|
| Loan Stock issue              | 16,109        | 16,109        |
| Opening revaluation           | 10,117        | 8,536         |
|                               | <b>26,226</b> | <b>24,645</b> |
| Loan Stock issued in the year | 4,519         | -             |
|                               | <b>30,745</b> | <b>24,645</b> |
| Revaluation during the year   | 8,290         | 1,581         |
|                               | <b>39,035</b> | <b>26,226</b> |

### 13. Equity Index-Linked Unsecured Loan Stock 2001 - continued

The Equity Index-Linked Unsecured Loan Stock 2001 is constituted by a Trust Deed entered into between the Company and Royal & Sun Alliance Trust Company Limited. The Stock is in registered form and ranks as an unsecured liability of the Company. The Stock is issued for a fixed period ending on 31 December 2001. Repayment will be by reference to the movement in the FT/S&P Actuaries Europe (ex UK) Index since issue. On 15 January 1997 a further 2,380,000 units were issued resulting in a total of 16,682,443 units in issue as at 31 December 1997 (1996 : 14,302,443).

Although the Company has adopted a policy of charging all finance costs and expenses to the revenue account in the Statement of Total Return, your Board considers that the revaluation element of the Loan Stock, which is an element of the overall finance cost, should be taken to capital reserves. By adopting this treatment the revaluation of the Loan Stock is matched against the capital appreciation or depreciation of the investment portfolio, in which the original proceeds of the Loan Stock were invested.

Interest is paid quarterly in arrear and is calculated by reference to the gross dividend yield of the FT/S&P Actuaries Europe (ex UK) Index that would be obtained on the capital value of the Loan Stock at the date of calculation. The interest payments have been charged to the revenue account in line with the Company's stated accounting policy.

### 14. Called-up share capital

|                                                                                                                | 1997<br>£'000 | 1996<br>£'000 |
|----------------------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Authorised:</b>                                                                                             |               |               |
| 136,000,000 (1996: 136,000,000) ordinary shares of 25p each                                                    | 34,000        | 34,000        |
| <b>Issued, allotted and fully paid:</b>                                                                        |               |               |
| <b>Beginning of year</b>                                                                                       |               |               |
| 57,087,423 (1996 : 52,133,448) ordinary shares of 25p each                                                     | 14,272        | 13,033        |
| 30 April: Exercise of 345,105 warrants (1996 : 34,294)                                                         | 86            | 57            |
| 15 July: Issue of 16,786 shares in respect of shares acquired through the Fidelity Investment Trust Share Plan | 4             | -             |
| Issue of 4,725,756 shares in consideration for the transfer of assets from The ECU Trust plc                   | -             | 1,182         |
| <b>End of year</b>                                                                                             |               |               |
| 57,449,314 (1996 : 57,087,423) ordinary shares of 25p each                                                     | 14,362        | 14,272        |

## Notes to the Accounts

### 14. Called-up share capital - continued

At 31 December 1997 there were 9,405,301 (1996: 10,250,406) warrants outstanding. On 30 April 1997 345,105 warrants were exercised at 100p per ordinary share. Holders have the right to subscribe for ordinary shares at 100p on 30 April in any of the years 1998 to 2001, both inclusive. The Company made the following purchases of warrants for cancellation during the year:

| Date of purchase                | number of warrants | price per warrant (p) |
|---------------------------------|--------------------|-----------------------|
| 13 November 1997                | 50,000             | 168.50                |
| 18 November 1997                | 350,000            | 175.00                |
| 28 November 1997                | 100,000            | 174.00                |
| <b>Total number of warrants</b> | <b>500,000</b>     |                       |

### 15. Reserves

|                                                                     | share premium account<br>£'000 | warrant reserve<br>£'000 | capital reserve realised<br>£'000 | capital reserve unrealised<br>£'000 | revenue reserve<br>£'000 |
|---------------------------------------------------------------------|--------------------------------|--------------------------|-----------------------------------|-------------------------------------|--------------------------|
| <b>Beginning of year</b>                                            | <b>49,792</b>                  | <b>4,185</b>             | <b>61,179</b>                     | <b>10,381</b>                       | <b>955</b>               |
| Exchange difference                                                 | -                              | -                        | 2,713                             | (3,654)                             | -                        |
| Net gain on realisation of investments                              | -                              | -                        | 29,372                            | -                                   | -                        |
| Increase in unrealised appreciation of investments                  | -                              | -                        | -                                 | 20,960                              | -                        |
| Increase in revaluation of Equity Index-Linked Unsecured Loan Stock | -                              | -                        | -                                 | (8,290)                             | -                        |
| Cost of Loan Stock issue                                            | -                              | -                        | (85)                              | -                                   | -                        |
| Retained net revenue for the year                                   | -                              | -                        | -                                 | -                                   | 128                      |
| Issue of new ordinary shares                                        | 42                             | -                        | -                                 | -                                   | -                        |
| Conversion of warrants                                              | 400                            | (141)                    | -                                 | -                                   | -                        |
| Cost of warrant repurchase                                          | -                              | (204)                    | (667)                             | -                                   | -                        |
| <b>End of year</b>                                                  | <b>50,234</b>                  | <b>3,840</b>             | <b>92,512</b>                     | <b>19,397</b>                       | <b>1,083</b>             |

### 16. Net asset value per share

The basic net asset value per ordinary share is based on net assets of £181,428,000 (1996: £140,764,000) and on 57,449,314 ordinary shares (1996: 57,087,423), being the number of ordinary shares in issue at the year end.

The fully-diluted net asset value per ordinary share has been calculated on the assumption that the outstanding warrants of 9,405,301 at 31 December 1997 (1996: 10,250,406) were exercised on that date.

## 17. Reconciliation of movements in shareholders' funds

|                                                                      | 1997<br>£'000  | 1996<br>£'000  |
|----------------------------------------------------------------------|----------------|----------------|
| <b>Opening shareholders' funds</b>                                   | <b>140,764</b> | <b>112,774</b> |
| Issue of shares and warrants                                         | 391            | 11,155         |
| Total recognised gains before dividends                              | 40,822         | 17,178         |
| Reduction in warrant reserve arising from the repurchase of warrants | (204)          | -              |
| Dividends payable                                                    | (345)          | (343)          |
| <b>Closing shareholders' funds</b>                                   | <b>181,428</b> | <b>140,764</b> |

## 18. Reconciliation of net cash flow to movement in net debt during the year

|                                                         | 1997<br>£'000   | 1996<br>£'000   |
|---------------------------------------------------------|-----------------|-----------------|
| <b>Beginning of year</b>                                | <b>(23,897)</b> | <b>(19,969)</b> |
| Unrealised foreign exchange movement                    | (3,654)         | 2,855           |
| Net cash inflow/(outflow)                               | 3,122           | (5,202)         |
| Revaluation of Equity Index-Linked Unsecured Loan Stock | (8,290)         | (1,581)         |
| Issue of Equity Index-Linked Unsecured Loan Stock       | (4,519)         | -               |
| <b>Change in net debt</b>                               | <b>(13,341)</b> | <b>(3,928)</b>  |
| <b>End of year</b>                                      | <b>(37,238)</b> | <b>(23,897)</b> |

|                                          | 1997<br>£'000   | change in<br>the year<br>£'000 | 1996<br>£'000   |
|------------------------------------------|-----------------|--------------------------------|-----------------|
| <b>Analysis of balances</b>              |                 |                                |                 |
| Cash at bank and in hand                 | 1,797           | (532)                          | 2,329           |
| Equity Index-Linked Unsecured Loan Stock | (39,035)        | (12,809)                       | (26,226)        |
| <b>End of year</b>                       | <b>(37,238)</b> | <b>(13,341)</b>                | <b>(23,897)</b> |

## Notes to the Accounts

### 19. Analysis of changes in financing during the year

|                                                                                                                   | 1997                      |                        |                | 1996                      |                        |                |
|-------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------|----------------|---------------------------|------------------------|----------------|
|                                                                                                                   | share<br>capital<br>£'000 | loan<br>stock<br>£'000 | total<br>£'000 | share<br>capital<br>£'000 | loan<br>stock<br>£'000 | total<br>£'000 |
| <b>Beginning of year</b>                                                                                          | <b>68,249</b>             | <b>26,226</b>          | <b>94,475</b>  | <b>57,094</b>             | <b>24,645</b>          | <b>81,739</b>  |
| Cash inflow from conversion of warrants                                                                           | 345                       | -                      | 345            | 228                       | -                      | 228            |
| Reduction in warrant reserve arising from the repurchase of warrants                                              | (204)                     | -                      | (204)          | -                         | -                      | -              |
| In specie consideration for the issue of shares to former shareholders of The ECU Trust plc                       | -                         | -                      | -              | 10,356                    | -                      | 10,356         |
| Issue of shares to the Fidelity Investment Trust Share Plan                                                       | 46                        | -                      | 46             | -                         | -                      | -              |
| Cash consideration for the issue of shares and warrants to former shareholders/warranholders of The ECU Trust plc | -                         | -                      | -              | 571                       | -                      | 571            |
| Issue of Equity Index-Linked Loan Stock                                                                           | -                         | 4,519                  | 4,519          | -                         | -                      | -              |
| Change in value of Equity Index-Linked Unsecured Loan Stock                                                       | -                         | 8,290                  | 8,290          | -                         | 1,581                  | 1,581          |
| <b>End of year</b>                                                                                                | <b>68,436</b>             | <b>39,035</b>          | <b>107,471</b> | <b>68,249</b>             | <b>26,226</b>          | <b>94,475</b>  |

### 20. Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

|                                                  | 1997<br>£'000 | 1996<br>£'000 |
|--------------------------------------------------|---------------|---------------|
| Net revenue before finance costs and taxation    | 1,654         | 1,732         |
| Scrip dividends                                  | (253)         | (246)         |
| Increase in other creditors                      | 206           | 199           |
| (Increase)/decrease in other debtors             | (82)          | 32            |
| Tax on investment income                         | (1,295)       | (1,224)       |
| <b>Net cash inflow from operating activities</b> | <b>230</b>    | <b>493</b>    |

### 21. Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 December 1997 (1996 : nil).

### 22. Related party disclosures

The Directors have complied with the provisions of FRS8 which requires disclosure of related party transactions and balances. Full details are set out in the Directors' Report on page 15.

# Auditors' Report to the Members of Fidelity European Values PLC

---

We have audited the accounts on pages 20 to 32.

## **Respective Responsibilities of Directors and Auditors**

As described on page 18 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

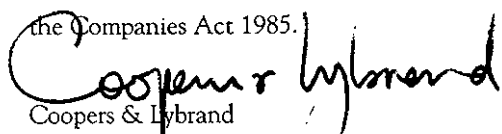
## **Basis of Opinion**

We conducted our audit in accordance with Auditing Standards 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. 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 are free from material mis-statement whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1997 and of its revenue, total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors

London

23 February 1998

# Notice of Annual General Meeting

---

Notice is hereby given that the Annual General Meeting of Fidelity European Values PLC will be held at 25 Lovat Lane, London EC3R 8LL, on 18 May 1998 at 12.00 noon for the following purposes:

## Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 December 1997.
2. To declare a dividend.
3. To re-appoint Coopers & Lybrand as Auditors and to authorise the Directors to determine their remuneration.

## Special Business

To consider and, if thought fit, to pass the following resolutions which will be proposed, Resolution 4 as an ordinary resolution and Resolution 5 as a special resolution:

4. 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 £4,787,442 (approximately one-third of the aggregate nominal amount of the issued share capital of the Company as at 31 January 1998) 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.
5. THAT, subject to the passing of Resolution 4 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 4 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 £718,116 (approximately 5 per cent of the aggregate nominal amount of the issued share capital of the Company as at 31 January 1998); and

---

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

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

By Order of the Board

Fidelity Investments International  
Secretary

11 March 1998

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, and, on a poll, vote instead of him. Forms of Proxy must be lodged not less than 48 hours before the time fixed for the meeting. Completion of a Form of Proxy will not prevent any Shareholder from attending and voting in person at the meeting, if desired.
2. There are special arrangements for holders of shares through the Fidelity Investment Trust Share Plan and the Fidelity Investment Trust Personal Equity Plan. These are explained on the Form of Direction which such holders will have received with this report.
3. In the case of joint holders, the vote of the senior who tenders a 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.
4. No Director has a service contract with the Company.

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

# Directory

---

## **Manager, Secretary and Registered Office**

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

## **Financial Advisers and Stockbrokers**

UBS Limited  
100 Liverpool Street  
London  
EC2M 2RH2PA

## **Trustee for Equity Index-Linked Loan Stock**

Royal & Sun Alliance Trust Company Limited  
40 Chancery Lane  
London  
WC2A 1JN

## **Auditors**

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
1 Embankment Place  
London  
WC2N 6NN

## **Bankers and Custodian**

Clydesdale Bank plc  
30 St Vincent Place  
Glasgow  
G1 2HL

## **Registrars**

IRG plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## **Lawyers**

Slaughter & May  
35 Basinghall Street  
London  
EC2V 5DB

## **Glossary of Investment Trust Terms**

### **Net Asset Value or NAV**

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities for which the Company is responsible eg money owed to other people. The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand and supply for the shares. Where a trust has warrants, there may be two types of NAV; the basic or undiluted NAV and the diluted NAV which is described under Warrant below.

### **Discount**

A description of the situation when the share price is lower than the NAV per share. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage (%) of the diluted NAV per share. If the share price is higher than the NAV per share, this situation is called a premium and the percentage is commonly shown prefixed with a minus sign.

### **Warrant**

A warrant is a form of security which gives the owner the right (but not the obligation) to pay a fixed exercise price, which in the case of Fidelity European Values is £1 on 30 April in any of the years 1998 to 2001, and exchange the warrant for an ordinary share. The warrants were issued at the Company's launch; one warrant with every five ordinary shares. Since launch, however, the warrants can be bought and sold separately. Until warrants are exercised and exchanged for ordinary shares, they do not entitle their holder to receive dividends, or to attend or vote at general meetings of the Company.

As the warrants have an exercise price of 100p when this is below the NAV per share this means that the NAV per share of the Company will fall once the warrant is exchanged for a share. Think of a fictional trust with only 1 warrant and 1 share and an NAV of £2. If the exercise price is £1 then after the warrant is exchanged for a share the new NAV of the trust will be £3. As there are now 2 shares in the trust the NAV per share has fallen to £1.50. This effect is called dilution and the lower NAV is called the diluted NAV.

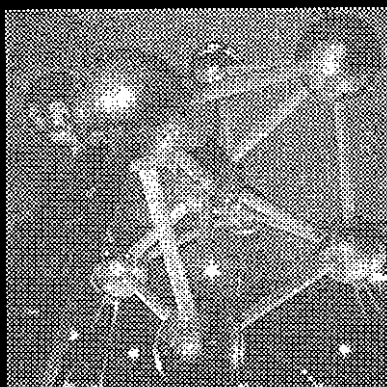
### **Total Return**

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Performance comparisons can then be made between trusts with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares (ie share price total return) or the trust's assets (ie NAV total return).

### **Equity Index-Linked Loan Stock**

One of the features of an investment trust, as with any other company, is the ability to borrow money to take advantage of opportunities where the rate of return is expected to be greater than the cost of borrowing money. This technique is also known as gearing. Fidelity European Values uses Loan Stock as its form of borrowing. Investors can buy or sell units of the Loan Stock and this market price is available in the Financial Times. If Loan Stock units are held until 31 December 2001, investors will receive an amount equivalent to the movement in the FT/S&P A Europe (ex UK) Index from the date when the Loan Stock was originally issued. On 31 March, 30 June, 30 September and 31 December, holders of the Loan Stock receive interest equivalent to the percentage income return on the Index. The unit price, which depends on demand and supply, may differ at any time from the index value of the Loan Stock to which it is ultimately linked. Both the market price and underlying index value are shown on page 4.

Traditional gearing involves taking out a loan, usually at a fixed rate of interest, and it is this fixed hurdle which a company must overcome for the gearing to be of value. In the case of the Loan Stock, the principal hurdle is a variable one ie the rise or fall in the FT/S&P A Europe (ex UK) Index, which the Company must outperform for the Loan Stock to be of benefit.



**Fidelity**  
**European Values PLC**

Beech Gate  
Millfield Lane  
Lower Kingswood  
Tadworth  
Surrey KT20 6RP