FIDELITY SPECIAL VALUES PLC - 2972628

Annual Report for the year ended

31 August

2002

Company Summary

as at 31 August 2002

Investment objective	To achieve long-term capital growth from an actively managed portfolio of special situation investments, consisting primarily of securities listed or traded on the London Stock Exchange.
Benchmark	FTSE All Share Index
Management company	Fidelity Investments International
Shareholders' funds	£105.38m
Market capitalisation	£107.15m
Capital structure	ordinary shares of 25p 42,103,004 in issue warrants 3,460,647 in issue
Continuation vote	Annual General Meeting in 2004 and every three years thereafter.
Management & secretarial fee	Fidelity provides management, accounting, administrative and secretarial services to the Company under an agreement entered into on 19 October 1994, which is terminable by either party at any time by giving one year's notice in writing. The agreement provides for a fee at the rate of 0.95% per annum (plus VAT) of the value of the total assets under management, calculated and payable quarterly in arrear, 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.
Investment trust status	The Inland Revenue has granted the Company approval as an investment trust under s842 of the Income and Corporation Taxes Act 1988 for the accounting period ended 31 August 2001. 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.
Membership of AITC	The Company is a member of the AITC and is classified under the UK Growth Sector.
ISA status	Investment limit £7,000 in the 2002/2003 tax year.

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Summary of Results

		2002	2001	% change*
Assets at 31 August				
Total assets employed		£125.38m	£129.03m	-2.8
Shareholders' funds		£105.38m	£109.03m	-3.4
Borrowings as % of shareholders' funds		19.0%	18.3%	
Borrowings less cash as % of shareholders' funds		17.2%	9.7%	
Undiluted net asset value per share		250.28p	290.20p	-13.8
Fully-diluted NAV ie assumes warrants exercised		238.87p	270.76p	-11.8
Returns for the year to 31 August - see page 25				
Capital return per ordinary share		(37.08p)	34.27p	
Capital + revenue return per ordinary share		(35.69p)	37.31p	
Final dividend per ordinary share		1.40p	2.50p	
Stockmarket Data at 31 August				
FTSE All Share Index		2,046.21	2,590.17	-21.0
Share price	year end	254.50p	290.00p	-12.2
	high	333.50p	299.50p	
	low	212.00p	201.75p	
Premium/(discount)	year end	6.0%	7.1%	
	high	13.0%	7.4%	
	low	(1.6%)	(9.6%)	
Warrant price	year end	154.00p	189.50p	-18.7
	high	232.50p	199.50p	
	low	111.50p	104.50p	
Total Returns (includes reinvested income) for the year to 31 August (%)				
FTSE All Share Index		-18.7	-17.3	
NAV - undiluted		-12.9	+13.7	
NAV - diluted		-11.0	+14.4	
Share price		-11.4	+31.0	
Total expense ratios#				
Total assets employed		1.43%	1.41%	
Shareholders' funds		1.70%	1.64%	

* price change

\# Operating expenses (excluding interest before tax) based on shareholders' funds at the end of each month

Summary of Performance

Historical Record as at 31 August	2002	2001	2000	1999	1998	1997	1996	1995
Shareholders' funds	£105.38m	£109.03m	£91.0m	£72.7m	£59.0m	£54.3m	£50.1m	£41.0m
NAV - undiluted	250.28p	290.20p	257.49p	204.60p	160.18p	147.60p	136.42p	111.76p
NAV - diluted	238.87p	270.76p	238.93p	191.44p	150.52p	137.74p	130.36p	109.80p
Share price	254.50p	290.00p	223.50p	162.50p	133.00p	123.00p	125.50p	101.00p
Warrant price	154.00p	189.50p	123.50p	83.00p	57.50p	44.00p	44.00p	40.00p
Premium/(discount) to diluted NAV	6.0%	7.1%	(6.5%)	(15.1%)	(11.6%)	(12.0%)	(3.7%)	(8.0%)
Revenue return per ordinary share	1.39p	3.04p	2.69p	4.36p	2.70p	2.00p	0.22p	1.32p
Dividends per ordinary share	1.40p	2.50p	2.30p	3.30p	1.80p	1.80p	nil	1.00p
Cost of running trust (total expense ratio)*	1.70%	1.64%	1.84%	1.89%	1.71%	1.84%	1.80%	1.46%
Actual gearing ratio (Loan Stock)	-	-	-	22.6%	21.3%	22.8%	19.3%	13.9%
Actual gearing ratio (loans)	17.2%	9.7%	13.6%	-	-	-	-	-
NAV - undiluted performance†	-12.9%	+13.7%	+27.3%	+30.1%	+9.4%	+8.2%	+22.1%	+17.0%
NAV - diluted performance†	-11.0%	+14.4%	+26.3%	+29.6%	+8.7%	+7.2%	+18.7%	+15.1%
Share price performance†	-11.4%	+31.0%	+39.4%	+24.9%	+9.2%	-2.0%	+25.5%	+1.0%
Index performance†	-18.7%	-17.3%	+11.6%	+23.5%	+10.0%	+22.2%	+15.8%	+10.7%

Total return performance from launch to 31 August 2002

Total return performance relative to the index from launch to 31 August 2002

Undiluted NAV, diluted NAV, share price and warrant price from launch to 31 August 2002

Share price discount to diluted NAV from launch to 31 August 2002

* operating expenses (excluding interest before tax) based on shareholders' funds at the end of each month

† on a total return basis

Board of Directors

Alex Hammond-Chambers* (Chairman) (age 60, date of appointment: 18 October 1994) a former Chairman of Ivory & Sime plc, he is also Chairman of Fidelity Japanese Values PLC, American Opportunity Trust PLC, Ivory & Sime Optimum Income Trust plc and Aurora Investment Trust plc, and a Director of International Biotechnology Trust plc and a number of non-UK investment companies. He is also Chairman of Dobbies Garden Centres plc. He worked at Ivory & Sime for 27 years, being responsible for the management of a number of its investment trusts, before becoming its Chairman in 1985. He retired from Ivory & Sime at the end of 1991 and has become a professional non-executive Director, specialising in investment trusts and investment companies. He served as an overseas governor of the National Association of Securities Dealers.

Sir Richard Brooke, Bt* (age 64, date of appointment: 18 October 1994) is a former partner of Rowe & Pitman, member of the International Capital Markets Advisory Committee to the Board of Directors of the New York Stock Exchange, a Vice-Chairman of the Board of Governors of the National Association of Securities Dealers, a member of the Board of Directors of SG Warburg Group and J O Hambro & Company Limited. He is currently a Director of Templeton Emerging Markets Investment Trust PLC, Exeter Selective Assets Investment Trust PLC and other public and private companies. His career has included all aspects of securities work including stockbroking, investment banking, investment management and the management and administration of businesses in the UK and worldwide.

Douglas Kinloch Anderson* (age 63, date of appointment: 18 October 1994) is Chairman of Kinloch Anderson Limited and a Director of Martin Currie Portfolio Investment Trust PLC and Martin Currie Capital Return Trust PLC. He has been President of the Edinburgh Chamber of Commerce and a member of the Scottish Committee of the Institute of Directors. He was previously a Board Member of the Scottish Tourist Board, Master of the Edinburgh Merchant Company and was recently National President of the Royal Warrant Holders Association. His career has included wide experience in manufacturing, retailing and exporting, particularly to Europe, North America and the Far East.

Simon Haslam† (age 45, date of appointment: 4 November 1999) is Chief Administrative Officer at Fidelity International Limited. His responsibilities include oversight of relationships between Fidelity and all of the external directors of Fidelity managed Investment Trusts. Before joining Fidelity in 1995, he was an audit and consulting partner at what is now Deloitte & Touche, where he specialised in the fund management and securities industry. He is also a non-executive Director of Fidelity Asian Values PLC and of EMX Co. His career in financial services, spanning more than twenty years, has concentrated on financial, compliance and business matters affecting stockbroking, investment banking and fund management businesses internationally.

James Laurenson* (age 61, date of appointment: 18 October 1994) is currently Chairman of Govett European Enhanced Investment Trust plc and a Director of Ivory & Sime UK Smaller Companies Trust plc, Liverpool Victoria Banking Services Ltd and Hiscox Investment Management Limited. Having qualified as a Chartered Accountant in London, he trained as an Investment Analyst at Ivory & Sime in Edinburgh, where he became a partner. His career at Ivory & Sime included responsibility for the unit trusts and the UK & US pension funds managed by the firm. In 1984 he helped to found Adam & Co, the Edinburgh based private bank, becoming its first Managing Director.

* members of the Audit Committee, Management Engagement and Nomination Committees

† member of the Nomination Committee

Chairman's Statement

Alex Hammond-Chambers
Chairman

The Year's Performance: NAV (diluted) 238.9p -11.8% - The past year has been one of the most difficult for those involved in stock markets anywhere in the world for many, many years, with share prices falling everywhere. In Britain the FTSE All Share Index (our benchmark) declined by 21.0% which, as it happens, was a little bit better than most of the other major world economies' markets: America –24.2%, Japan –15.5%, Germany –27.6% and France –27.3%. The reasons for the severity of the declines have been well aired in the media and include concern about the prospect of another war in the Middle East, the aftermath of the global technology boom, the corporate scandals in the United States, large scale selling of stocks and shares by insurance companies and the worry about the prospects for the US economy in an American dependent world economy.

While it is never satisfactory to report a decline in our net asset value because making money for our shareholders must always be our fundamental objective, I can report that our net asset value declined by much less than our benchmark, falling by 11.8% to 238.9p per share. Again, this year I would like to pay tribute to Anthony Bolton, also his team for this better than average performance in what has been another difficult year. While Anthony Bolton is well known to our shareholders and is an able and experienced investment manager even he would find it difficult to do as well as he has in the last three years without the back-up of his many and skilful colleagues.

The share price declined by 12.2%, a little more than the net asset value but I am pleased to report that it continued to sell at a premium to net asset value, it being 6.0% at the year end. During the year we issued 3,714,182 shares at various small premia (but always above 2%) which added a small amount, 1.6p per share, to our net asset value. Furthermore during the course of the year, the Board of Directors decided to broaden the base of those to whom we issue shares as a consequence of the consent given by shareholders at the Annual General Meeting; at an extraordinary general meeting held on 3 October 2002 shareholders approved a resolution allowing the Directors to issue a further 4,200,000 shares, providing that they are issued at a premium of at least 2% to the then net asset value. This authority ends at the forthcoming Annual General Meeting and the Directors will then seek authority to issue another 4,250,000 shares during the next 12 months.

Dividend: 1.40p per share - The Board of Directors is recommending a dividend of 1.40p per share to shareholders at the forthcoming AGM. It is lower than that paid last year – 2.50p per share – because the income earned during the year is also lower; it is in line with our policy of managing the portfolio for capital growth and paying out whatever net income the portfolio happens to earn during that year. The dividend will be payable on 16 December to shareholders on the register at close of business on 8 November (ex dividend date 6 November).

Annual General Meeting, 13 December 2002 - The shareholders' Annual General Meeting will take place at 12 noon on 13 December 2002 at Fidelity's offices at 25 Cannon Street, near St Paul's Cathedral. We emphasise in our report on corporate governance that "the Annual General Meeting is the pivotal point in the relationship between the Board of Directors and shareholders and is the occasion when the Board accounts for itself in public meeting". We do encourage as many shareholders as possible to attend – both individual and institutional – as it gives you the opportunity to air your views or ask any questions you may wish in front of the body of shareholders. Following the formal proceedings Anthony Bolton will give a review of the past year and look at the prospects for the current one.

At this Annual General Meeting shareholders will be asked to re-elect three of the five members of the Board – James Laurenson, Simon Haslam and myself. While I cannot comment on myself, I can say that all of the other directors make a considerable contribution to the governance of your Company both as individuals and as a team. James Laurenson is an able director, a qualified chartered accountant and an experienced investor and all three attributes are valuable to the Board. Simon Haslam, Fidelity International's Chief Administrative Officer, is the one Fidelity person that serves as a director. As we say in our corporate governance report we believe that it is most important that there is a senior Fidelity individual on the Board and I can say that he is an excellent director bringing his experience of the financial business and his knowledge and understanding of Fidelity's operations to our deliberations; like James Laurenson he is also a qualified chartered accountant. In all three cases the Nomination Committee considered their re-elections individually and then recommended to the Board that their names be put forward for re-election as directors at the forthcoming Annual General Meeting.

Outlook - In my statement last year I said that "the outlook for the current year could not be more difficult to assess". Well I have to say that it is even more difficult to assess future prospects now than it was a year ago. In all stock markets in the world there is a considerable lack of confidence in the future whether the concerns are of war in the Middle East, of the accuracy of the reporting of profits (particularly in the United States) and the sustainability of profits generally, of the jobs of those in the business of stock markets and of the possibility of global deflation. The stock markets have continued to decline – the UK stock market is down another 4% since our year end – so that the declines themselves are now feeding the bearish frenzy. The issues are all real enough and won't all be resolved within a short span of time.

In Great Britain the outlook is rather mixed. The prospects for the private sector do not appear to be too bad and they certainly seem rather better than those of a number of other countries – notably Germany and Japan. The stock market valuations are reasonable, even if they could go lower in the shorter term – markets always go to one or other extreme. But the public sector is experiencing great difficulties with all the implications that has for economic life in Britain. The Government's solution to any of its problems seems to be more spending and more central bureaucratic control, and more rules and regulations, treating the symptoms of the problems with management of targets and excessive use of spin to cover up the problems. It is likely to cause problems for the Government's finances, which will result, I believe, in the imposition of yet higher taxes. This in turn will undermine the efficiency and productivity of all businesses and in particular it will hurt the private sector of the economy.

However the UK stock market has declined a very long way – it fell by nearly half from its peak in the early part of 2000 to the recent trough. There is a great deal of pessimism around, much of which has emerged in the last few months when markets around the world suddenly plunged to much lower levels, caused in part by insurance companies having to sell stocks and shares. It is a truism that everything looks worst at the bottom and best at the top. I am not suggesting that we have reached the bottom yet but at half the level it once was, it cannot be that far away in relation to its peak. At this level, there are lots of attractively valued opportunities, which could prove to be very profitable investments on, say, a three year view – even if the stock market itself does not make much progress. Finding and investing in such opportunities is what good investment managers are able to do. In Fidelity and in Anthony Bolton and his team we have such capability and I see no reason why we should not make money for our shareholders over, say, that three year time span.

Alex Hammond-Chambers
Chairman
25 October 2002

Investment Manager

Fidelity's Offices at 25 Cannon Street, London.

Fidelity Investments International

The Company is managed by Fidelity Investments International (regulated by the Financial Services Authority). Fidelity Investments International is part of the Fidelity organisation, which, as at 30 September 2002, had total assets under management exceeding £530 billion. Fidelity has developed into the world's largest independent investment management organisation.

Anthony Bolton (age 52)
is a director of Fidelity Investment Management Limited. He began his career as an investment analyst at Keyser Ullmann and subsequently worked as a fund manager at Schlesinger Investment Management services. He joined Fidelity Investments in 1979, at the time when its unit trust operation was set up. In addition to Fidelity Special Values PLC, he also manages the Fidelity Special Situations Fund (a Sub-Fund of Fidelity's retail OEIC).

Investment Manager's Report

The UK Market Environment - UK investors experienced another difficult year. Confidence, already shaken by the events of September 11, was further undermined by a series of high-profile corporate scandals. The UK stock market, represented by the FTSE All Share Index, fell by 21.0% or 18.7% on a total return basis, during the year. Large and medium-sized companies fell by approximately 18%, but smaller companies fell more heavily, declining by 22.6%. Value stocks generally performed better than growth stocks, but this disparity was less pronounced by the end of the year.

Total return performance for year to 31 August 2002

Shares in technology-related companies continued to perform poorly, as investors' concerns over the outlook for profits growth remained unabated. The technology sector fell by more than 50% over the review period, and shares in telecommunications and media companies also suffered. Concerns over poor stock market returns hurt the financial sector, with the insurance and life assurance companies particularly affected.

Few sectors posted positive returns over the period, but the best-performing sectors were those perceived as defensive. Sectors that performed relatively well included food producers, beverages, personal care & household products and tobacco.

Turning briefly to the economic backdrop, the UK economy grew by its fastest rate in over two years during the second quarter, supported by a recovery in the manufacturing sector. Gross domestic product increased by 1.3% compared with the same period in 2001. UK interest rates began the period under review at 5%, but were cut during September, October and November 2001 to 4%. The Monetary Policy Committee has maintained rates at this level for nine consecutive months, amid concerns over weak equity markets and slowing consumer spending. In general, the UK economy appears to be relatively stable, although continuing growth in house prices remains a concern.

Portfolio review - Despite a difficult year for many investors, the market environment proved particularly conducive to the Manager's approach of individual stock selection. Despite declining in absolute terms, the Company's portfolio performed strongly compared to the broad UK market. The portfolio's performance benefited from stock selection, particularly in the insurance, mining, speciality finance, media & photography, and software & computer services sectors.

The Company has a relatively high weighting in the insurance sector and, despite the sector's poor performance, the Company's individual holdings performed well. The Manager has found some attractive opportunities in the insurance sector; a particular favourite is non-life insurance, where the pricing environment appears favourable, and valuations are relatively low. Holdings in the speciality finance sector, such as London Stock Exchange, also enhanced returns. The Company has a relatively high exposure to the media & photography sector. Although the broad media sector continued to suffer as investors shunned "new economy" companies in favour of more defensive stocks, the Company's holdings within the sector provided positive performance overall.

Performance in the banking sector proved relatively lacklustre, as investors became increasingly uneasy about the effects of lower stock market returns. However, the Company's holdings in banking stocks proved beneficial for performance. Bank of

Ireland has been a long-term holding of the Company, and proved to be one of the chief contributors to returns during the period under review. French banking company Credit Lyonnais also performed well.

A holding in tobacco group Gallaher boosted returns. The tobacco sector was the strongest performer in the UK market during the twelve months under review, as investors looked for opportunities amongst defensive companies with strong cash generation and a track record of profits growth.

Sector Breakdown v FTSE All Share Index as at 31 August 2002

Among the other top performers within the Company were mining company Harmony Gold Mining, insurance underwriter Wellington Underwriting, consumer goods manufacturer Unilever, and hotel operator Jarvis Hotels.

The Manager has maintained the Company's relatively low exposure to companies in the banking, oil & gas, and pharmaceuticals sectors. However, as the portfolio is constructed on a stock-by-stock basis, this does not necessarily reflect any view the Manager may have on these sectors; rather, it indicates that we continue to find fewer companies within these sectors that fulfil our investment criteria.

The Company's relatively low weighting towards telecommunications stocks proved positive for performance, as the telecommunications sector continued to suffer from investors' concerns over future levels of subscriber growth, uncertainties over technological development, and high levels of debt in the sector. Nevertheless, the Company's holding in mm02 (formerly BT Cellnet) provided strong performance. The Manager believes that the share price of mm02 could benefit if the company were to restructure by disposing of its loss-making European operations.

After beginning the period strongly, smaller companies under-performed the broader market during the year as a whole. Despite the fact that the performance of the small cap sector tailed away towards the end of period, the Manager's stock selection amongst smaller companies proved to be a strong contributor to performance, and the Manager continues to find a large number of investment opportunities amongst medium-sized and smaller companies.

Outlook - The uncertainties that have tainted the world's markets over the past year do not appear to have abated. Investors remain wary following the unprecedented corporate scandals that began with Enron in December 2001. There is mounting unease over the likelihood of war in Iraq; concerns have escalated over the last few months, and there is a growing consensus that military conflict may be inevitable.

Focusing on the UK, the major equity indices have fallen to their lowest levels in six years, and investor sentiment is poor. Paradoxically, however, some companies are in fact producing healthy profits, and the recent heavy market falls do not reflect the relatively stable domestic economic environment. Inflation remains below the Bank of England's rolling target of 2.5% and interest rates are still at a 38-year low of 4%. House price inflation remains a concern but, conversely, the strength of retail sales – previously a cause for some concern – appears to be abating.

Since the technology bubble burst in 2000, the past two years have provided a good environment for value investing, as investors have turned away from "growth" areas such as technology and telecommunications to look for opportunities amongst companies with more established track records and more mature businesses. Looking ahead, the environment for value stocks still appears positive, albeit less exaggerated than recently.

The UK stock market is likely to remain volatile in the short term, until investors feel more confident about the outlook for corporate profits, and about the trustworthiness of companies' management. These ongoing concerns about corporate profits mean that in depth company analysis is paramount, and Fidelity's historical emphasis on detailed company research means that we are well placed to perform in such an environment. Forecasts for earnings growth remain muted, however, and investors need a catalyst to move back into the equity market. There are few clear themes emerging from the UK stock market at present, and this bodes well for fund managers with a stock-picking approach.

The last two years have seen a bear market that has been, by historical standards, both long in time and extended in the size of the decline. The outlook nearly always appears worst when the stock market is near its lowest and this time round is no exception there being plenty of negative sentiment and a number of factors worrying investors. In contrast your Manager is relatively optimistic for the future although, as ever, it is extremely difficult to call the exact bottom.

Fidelity Investments International
25 October 2002

Portfolio Listing

as at 31st August 2002

Holdings by value	Market Value £'000	%†
Credit Lyonnais *Bank*	3,507	2.8
Unilever *Manufactures branded and packaged consumer goods*	3,347	2.7
mm02 *Provides mobile commuication services in Europe*	2,939	2.3
Bank of Ireland *Irish bank*	2,707	2.2
Abbey National *Financial services group in the UK*	2,602	2.1
Gallaher *Tobacco product manufacturer*	2,592	2.0
Safeway *Supermarket chain*	2,240	1.8
Amlin *Insurance underwriter*	2,131	1.7
Man *A fund management and financial services company*	1,839	1.5
Provident Financial *International personal finance group*	1,832	1.5
Norsk Hydro *Oil and natural resources*	1,660	1.3
London Stock Exchange *United Kingdom's primary stock exchange*	1,567	1.2
Carlton Communications *Media company*	1,519	1.2
Novar *Building systems, cheque printing and aluminium extrusions*	1,393	1.1
Centrica *Provides gas and energy*	1,380	1.1
Trinity Mirror *Newspaper and magazine printer*	1,343	1.1
Brit Insurance *Insurance underwriter*	1,305	1.0
Cairn Energy *Exploration, development and production of oil and gas*	1,291	1.0
Prudential *Insurance company*	1,259	1.0
Body Shop International *Retailer of naturally-based cosmetics, skincare and hair products*	1,243	1.0
Carillion *Construction and services company*	1,215	1.0
Reed Elsevier *Publisher and information provider*	1,203	1.0
Royal & Sun Alliance Insurance *UK insurance and related financial services holding company*	1,202	1.0
SSL International *UK healthcare group*	1,195	1.0
Balfour Beatty *Engineering, construction and services company*	1,192	1.0
Top 25 Holdings	**45,703**	**36.6**

† % total assets less current liabilities

Portfolio Listing

as at 31st August 2002

Holdings by value	Market Value £'000	%
Jarvis Hotels *Owns and operates hotels*	1,166	0.9
Pendragon *Sells new and used vehicles/provides contract hiring services*	1,135	0.9
British Land *Property company*	1,124	0.9
Countrywide Assured *Residential real estate agency*	1,117	0.9
Davis Service Group *Provides a range of commercial, industrial, leisure and public sector services*	1,112	0.9
W.H. Smith *Publishes, wholesales and retails books, magazines and newspapers*	1,108	0.9
Tate & Lyle *An international group of companies, which manufacture, refine, process, distribute and trade sweeteners and their by-products*	1,089	0.9
Wellington Underwriting *Insurance underwriter*	1,047	0.8
Telecom Italia *Italian telephone operator*	1,047	0.8
British American Tobacco *A group of companies that manufacture, market and sell cigarettes and other tobacco products*	1,044	0.8
Goshawk Insurance *Insurance underwriter*	1,005	0.8
BAA *Airport facilities provider/property investment and development*	999	0.8
Boots *Manufactures and sells health and personal care products*	964	0.8
Sabmiller *International beer company*	949	0.7
Reuters *International news and information organisation*	926	0.7
Findel *Sells paper products, gift and education supplies through mail order catalogues*	922	0.7
Kiln *Insurance group which specialises in life, aviation, marine and non-marine services*	916	0.7
Granada *Media company*	912	0.7
Cox Insurance *Insurance underwriter*	897	0.7
Enodis *Manufactures and sells commercial food service equipment and consumer products*	885	0.7
Management Consulting *Management consulting company*	869	0.7
Tullow Oil *Exploration, development and production of oil and gas*	858	0.7
Babcock International *Engineering/facilities management firm*	847	0.7
Unite *Property company*	816	0.7
United Business Media *Information and publication services*	798	0.6
Top 50 Holdings	70,255	56.0
Other Holdings (149)	55,397	44.2
	125,652	
Cash & other net assets (excluding loans)	(277)	(0.2)
	125,375	100.0

Distribution of Portfolio*

as at 31st August 2002	UK %	Non-UK %	Total %	Index+ %	2001 %
Equities (including convertibles)					
Financials					
Insurance	8.6	-	8.6	0.4	5.8
Banks	2.4	5.3	7.7	19.6	3.8
Speciality & Other Finance	4.5	0.2	4.7	1.3	5.1
Real Estate	4.5	-	4.5	1.7	5.0
Life Assurance	1.9	-	1.9	2.9	0.2
Investment Companies	0.5	-	0.5	2.3	-
	22.4	5.5	**27.9**	28.2	**19.9**
Cyclical Services					
Media & Photography	6.7	0.5	7.2	3.9	6.2
General Retailers	5.5	-	5.5	3.4	5.4
Support Service	5.2	-	5.2	3.0	4.2
Leisure Entertainment & Hotels	4.2	-	4.2	1.9	4.7
Transport	3.8	-	3.8	1.9	6.6
Distributors	0.1	-	0.1	-	2.4
	25.5	0.5	**26.0**	14.1	**29.5**
Non-Cyclical Consumer Goods					
Food Producers & Processors	5.0	-	5.0	2.8	3.8
Tobacco	2.9	-	2.9	2.1	3.0
Pharmaceuticals	2.6	-	2.6	9.5	0.1
Beverages	1.8	-	1.8	3.3	1.3
Health	1.0	-	1.0	0.9	1.5
Personal Care & Household Products	0.4	-	0.4	0.7	0.5
Packaging	-	-	-	-	0.6
	13.7	-	**13.7**	19.3	**10.8**
Non-Cyclical Services					
Telecommunication Services	3.4	1.0	4.4	8.1	1.9
Food & Drug Retailer	3.0	0.5	3.5	2.2	4.3
	6.4	1.5	**7.9**	10.3	**6.2**
Basic Industries					
Construction & Building Materials	4.9	-	4.9	2.2	5.1
Steel & Other Metals	-	2.0	2.0	0.1	-
Chemicals	0.4	-	0.4	1.0	0.4
Forestry & Paper	-	-	-	-	0.7
	5.3	2.0	**7.3**	3.3	**6.2**
General Industries					
Electronic & Electrical Equipment	2.8	-	2.8	0.4	2.7
Engineering & Machinery	2.8	-	2.8	0.7	2.7
Aerospace & Defence	0.3	-	0.3	1.5	1.1
	5.9	-	**5.9**	2.6	**6.5**
Resources					
Oil & Gas	3.6	1.9	5.5	14.1	5.7
Mining	-	-	-	2.9	2.3
	3.6	1.9	**5.5**	17.0	**8.0**
Information Technology					
Software & Computer Services	2.0	-	2.0	0.6	1.5
Information Technology Hardware	-	0.3	0.3	0.3	0.2
	2.0	0.3	**2.3**	0.9	**1.7**
Utilities					
Gas Distribution	1.1	-	1.1	1.2	-
Electricity	0.6	-	0.6	2.0	2.4
Water	0.2	-	0.2	0.8	0.5
	1.9	-	**1.9**	4.0	**2.9**
Cyclical Consumer Goods					
Automobiles	1.6	-	1.6	0.3	0.9
Household Goods & Textiles	0.2	-	0.2	-	0.2
	1.8	-	**1.8**	0.3	**1.1**
Total Equities - 2002	88.5	11.7	**100.2**	100.0	**92.8**
Cash & Other Net Assets			**(0.2)**	-	**7.2**
Total - 2002	88.5	11.7	**100.0**		
Total Equities - 2001	84.5	8.3	92.8		100.0

* % total assets less current liabilities

† FTSE All Share Index

Directors' Report

The Directors have pleasure in presenting their report together with the audited accounts of the Company for the year ended 31 August 2002.

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

Activities and Status

A review of the year's activities and an indication of likely future developments are given in the Chairman's Statement on pages 6 to 7 and in the Investment Manager's Report on pages 9 to 11.

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 period to 31 August 2001. 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 £125,652,000 as at 31 August 2002. Shareholders' funds amounted to £105,375,000 resulting in an undiluted net asset value per share of 250.28p. Changes to investments are shown in note 10 to the accounts on page 32.

Results and Dividends

The amount available for distribution as dividend in the year is £549,000 as shown on page 25. The Directors recommend the payment of a final dividend of 1.40p (note 8) per ordinary share, payable on 16 December 2002 to shareholders on the register at close of business on 8 November 2002 (ex dividend date 6 November 2002). An amount of £51,000 has been transferred from reserves to cover the shortfall.

Under current tax legislation, only individuals holding shares in a PEP or ISA will be entitled to a refund of the tax credit on UK dividend distributions.

Share Capital

On 1 January 2002, 816,727 ordinary shares of 25p per share were allotted and issued, fully paid at a rate of 100p, following an exercise of warrants.

Under authorities granted by shareholders there were 405 separate issues of shares during the year to 31 August 2002, at prices representing premia in excess of 2% over the diluted net asset value, as follows:

	Number of issues	Total number of shares issued	Price range
Fidelity Share Plan	199	1,213,699	213p-338p
Fidelity ISA	201	1,525,389	213p-338p
Apollo Nominees Ltd (UBS Warburg)	4	875,094	229p-256p
Cazenove & Co Limited	1	100,000	255p

As at 31 August 2002, the total number of shares in issue was 42,103,004.

Since the year end a further 466,494 ordinary shares of 25p have been issued at prices representing premia in excess of 2% over the diluted net asset value and as at 25 October 2002, the total number of shares in issue was 42,569,498.

Under the authority granted by shareholders at the Annual General Meeting held on 12 December 2001, a total of 3,256,153 ordinary shares of 25p have been issued (approximately 7.73% of the aggregate nominal amount of the issued share capital).

Under the authority granted by shareholders at the Extraordinary General Meeting held on 3 October 2002, as at 25 October 2002 a total of 309,834 ordinary shares of 25p have been issued (approximately 0.74% of the aggregate nominal amount of the issued share capital).

No shares have been purchased for cancellation in the year (2001: nil).

Warrants

No warrants have been purchased for cancellation during the year.

Registered holders of warrants should note that the next annual subscription date is 1 January 2003. **If your subscription rights are not exercised on 1 January 2003, there will be a final opportunity to exercise your rights on 1 January in the year 2004.**

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 warrantholder must lodge the warrant certificate(s), having completed a Notice of Exercise of subscription rights, at the office of the Registrars between 4 December 2002 and 3pm on 1 January 2003. The warrant certificate and the 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 applicable, 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 warrantholders reminding them of their subscription rights.

Warrantholders should note that this is a right, not an obligation, and they should contact their financial adviser if they have any queries.

Political and Charitable Donations

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

Payment of Creditors

The Company's policy for the year to 31 August 2003, 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 (the Management Agreement) entered into on 19 October 1994. Further details of the agreement are given in the Company Summary on page 1.

The Manager also provides certain services, including marketing and administration, in connection with the Fidelity Investment Trust Share Plan and the Fidelity Individual Savings Account under an agreement dated 17 April 1996. The amount payable for these services for the year to 31 August 2002 is £139,064 (2001: £158,277). If the amount paid by the Manager for the provision of these services is less than this amount, the balance is carried forward to cover the cost of the provision of these services in future years.

An amount of £314,853 (2001: £373,774) was due to the Manager under the above agreements at 31 August 2002 and is included in creditors in note 13 on page 36.

The Manager uses certain services for the benefit of the Company 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. Amounts received by the Company under this arrangement are offset against other expenses (see note 4 on page 29).

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

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

Directors

Details of the Directors who served in the year to 31 August 2002 are set out on page 5. Mr Alex Hammond-Chambers, Mr Simon Haslam and Mr James Laurenson retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Mr Simon Haslam is a director of Fidelity International Limited, the ultimate holding company of Fidelity Investments International, and has waived his entitlement to director's fees.

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

The interests of the Directors and Fidelity International Limited in the ordinary shares and warrants of the Company as at 31 August 2002 and 31 August 2001 were as follows:

	31 August 2002		31 August 2001	
	shares	warrants	shares	warrants
Alex Hammond-Chambers†	20,000	4,000	20,000	4,000
Sir Richard Brooke	10,000	2,000	10,000	2,000
Simon Haslam	3,000	-	3,000	-
Douglas Kinloch Anderson	16,476	1,000	16,419	1,000
James Laurenson	35,000	3,000	35,000	3,000
Fidelity International Ltd	1,085,000	200,000	1,085,000	200,000

† of which 15,000 shares (2001: 15,000) and 3,000 warrants (2001: 3,000) are non-beneficially owned

Since the year end Fidelity International Limited has sold 230,000 shares.

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

Substantial Share Interests

As at 25 October 2002 the Company was not aware of any interests in 3% or more of the issued share capital of the Company. 47.65% of the issued share capital was held by investors in the Fidelity Investment Trust PEP, ISA and the Fidelity Investment Trust Share Plan.

Analysis of Ordinary Shareholders

as at 31 August 2002

	Number of Shareholders	% of Issued Share Capital
Private Shareholders††	11,401	59.93%
Nominee Companies**	866	26.37%
Limited Companies	31	12.20%
Other Institutions	14	0.74%
Bank & Bank Nominees	15	0.54%
Investment Trusts	2	0.14%
Pension Funds	4	0.02%
Insurance Companies	2	0.02%
Other	3	0.04%
	12,338	**100%**

†† includes Share Plan, ISA and PEP investors

** 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 7 provides the Directors with a general authority to allot securities in the Company up to an aggregate nominal value of £1,062,500. If passed, this resolution will enable the Directors to allot a maximum of 4,250,000 ordinary shares which represents approximately 10% of the issued ordinary share capital of the Company as at 25 October 2002.

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 other 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 8 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £1,062,500 (approximately 10%).

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 8 will, inter alia, enable the Directors to issue additional new ordinary shares to participants in the Fidelity Investment Trust Share Plan, Fidelity ISA and to other FSA authorised persons in the event that the ordinary shares are trading at a premium to their diluted net asset value. The Directors would not intend to use this power unless the premium was in excess of 2% and unless they considered that it was in the interests of shareholders to do so.

Resolution 9 is a special resolution which renews the Directors' authority to repurchase the Company's shares for cancellation. It is proposed that the Board be authorised to make arrangements to purchase through the London Stock Exchange up to 6,300,000 ordinary shares of 25 pence (equivalent to 14.8% of the shares in issue at 25 October 2002). By utilising this power to repurchase shares when they are trading at a discount to net asset value, the Company will increase the resulting net asset value per share for remaining shareholders. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share.

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

The full text of the resolutions is set out in the notice of meeting contained on pages 42 to 44.

Corporate Governance

Full details are given in the Application of Corporate Governance on pages 20 to 23.

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.

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

Auditors

The Auditors, PricewaterhouseCoopers, 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 proposed at the Annual General Meeting.

By Order of the Board

Fidelity Investments International

Secretary

25 October 2002

Application of Corporate Governance

What is corporate governance?

"Corporate governance", as the phrase implies, is the process by which a board of directors of a company looks after the shareholders' interests and responsibilities and by which it enhances those interests (often referred to as "shareholder value"). Shareholders hold the directors responsible for the stewardship of a company's affairs, delegating authority to the directors to manage the company on their behalf and holding them accountable for its performance. This report explains how the Directors of Fidelity Special Values deal with that responsibility, authority and accountability.

The corporate governance requirements of the Stock Exchange

Following reports from Cadbury, Greenbury, Hampel and Turnbull, the Stock Exchange has established "The Combined Code" which outlines its corporate governance standards and requirements. Your Board of Directors is committed to the highest standards of corporate governance, which include following the spirit of The Combined Code as well as box ticking its 45 points checklist. It should be remembered that following The Combined Code will not produce good company performance, only establish a certain standard of corporate governance.

The corporate governance of an investment trust company

The corporate governance of most investment trust companies, including Fidelity Special Values, is different from most other commercial companies in one important respect: they do not employ their own people as management but rather the services of a fund management company.

This affects the way they are governed but not the purpose of their governance. It is important to understand that the responsibility, authority and accountability of the board of directors of an investment trust company is not the same as that of the trustees of a pension fund nor of a unit trust and that therefore the composition and modus operandi of a board of directors will of necessity differ from that of a board of trustees.

In particular the board of directors of an investment trust company has the responsibility both for the stewardship of all of the company's affairs and for maximizing its shareholder value (in contrast to trustees who tend to be responsible just for the stewardship of a fund). Given that the fund manager's business is not dedicated solely to the interests of an investment trust company and its shareholders, the composition of its board of directors must be largely independent of management but must have the knowledge and experience of both fund management and investment trust management, which the presence of executive management on other commercial boards brings to their corporate governance. This is vitally important if an investment trust company board is to do its job properly.

And secondly, most investment trust companies, including Fidelity Special Values, are established, managed and promoted by their managers, who are therefore one of the main reasons shareholders choose to invest in the investment trust company's shares. It follows that it is an important aspect of the corporate governance of this investment trust company that the manager should be party to the responsibility, authority and accountability to those investing in their management.

And finally, because a board of directors has the responsibility for maximizing shareholder value in the long term, it is important that the directors (and the manager) are long term shareholders, thereby aligning their interests with those of the rest of the shareholders.

The Board of Directors of Fidelity Special Values believes that these three matters are important aspects of the corporate governance policy of your Company.

Fidelity Special Values' corporate governance

The corporate governance of any Stock Exchange listed company, while following the guidelines of The Combined Code, will vary in certain respects depending on its own circumstances. The Board of Fidelity Special Values has taken the trouble to consider its own circumstances and determine its own corporate governance policies and modus operandi. Because it is important that shareholders should be aware of them, and indeed approve of them, the Board has chosen to outline them in this report.

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

The corporate governance policies and modus operandi of Fidelity Special Values

In this section we have outlined the corporate governance policies and modus operandi through these three aspects of corporate governance:

Responsibility, Authority and Accountability

It is first of all important that shareholders have confidence in the Board of Directors, whom they hold responsible and accountable for the Company's affairs. In determining the guidelines for the composition of the Board, the Directors believe that there should be a clear majority of the Board members (including the Chairman), who are independent of management, and that the makeup of the Board should bring understanding and experience of investment management, investment trust management, the investment objective of the Company and finally of Fidelity's investment philosophy and its operations. While the key determinant of independent behaviour stems from personal character, the Directors recognize that any individual who is employed or otherwise materially financially associated to the Manager, Fidelity Investments International, may not be regarded as independent. However, as already explained, the Board regards it as important that there should be one senior executive from Fidelity Investments International serving as a Director. Other relationships, age or time served as a Director are not regarded prima facie as compromising independent behaviour but may nevertheless be of interest to shareholders and consequently the Directors' current business associations are set out on page 5 for shareholders' perusal.

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

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

2. The promotion of the Company's prosperity so as to maximize shareholder value in the long term, which includes the responsibility for the appropriateness of the Company's investment objective and its investment strategy and for the Company's efforts in seeking to minimize the level and the volatility of the discount at which the shares sell in relation to the net asset value;

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

Authority - The Board of Directors is furnished by the shareholders with the authority to manage the Company on their behalf, being required to discharge the responsibilities outlined above. The Board, being wholly non-executive and (by majority) independent of management, carries out its duties through the mechanism of board meetings and board committee meetings.

The most important aspect of the Directors' duties concerns the management of the Company's portfolio of assets and of the risk profile of its balance sheet. While the day to day investment management is delegated to Fidelity Investments International, there are certain decisions which are retained and made by the Directors, including the payment of

Application of Corporate Governance

dividends, the share buyback guidelines and the gearing policy. In structuring the board meetings, the Directors try to concentrate as much as possible of their regular board meetings on (i) investment matters (including gearing policy, investment policy, portfolio and stock reviews, portfolio turnover, monitoring performance, etc) and on (ii) shareholder value matters (including share buy backs and Fidelity's share plan and ISA marketing). The contents of the board meeting papers are determined by the Board itself and contain sufficient information on the financial condition of the Company. Key representatives of the Manager attend each board meeting enabling the Board to probe further on matters of concern or seek clarification on certain issues. The Board meets at least once a year with the Company's investment bankers to discuss shareholder value and investor relations' issues.

Because the Board of Directors is concerned that the bureaucratic burden of corporate governance procedure tends to crowd out investment and shareholder value matters at board meetings, it has decided to discharge as much as possible of its corporate governance responsibilities through three committees:

The Audit Committee consists of all of the independent Directors and is charged with reviewing and monitoring the production of the annual and interim accounts, the audit process, corporate governance issues, the existence and performance of all controls operating in the Company (including the adherence to Section 842 status), the relationship with and performance of other third party service providers (such as the Registrars or Custodians) and finally the relationship with the auditors (and their ongoing re-appointment and level of fees). The Committee meets with the auditors at least once a year to review all these matters.

The Committee itself meets twice a year and reports to the Board of Directors, making recommendations where appropriate.

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

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

The Nomination Committee consists of all of the Directors and is charged with nominating new directors for consideration by the Board of Directors, in turn for approval by the shareholders. It believes that the best way of ensuring that the Board as a whole and each independent Director individually carry out their duties in an independent manner, irrespective of the interests of the Manager, is to ensure that the search for, the interview of and recommendation to the Board of a candidate is entirely controlled by this Committee. The Nomination Committee also considers the reappointment of Directors.

This Committee meets on an annual basis and as and when required, making recommendations where appropriate.

The Board concerns itself with the remuneration of the Directors, considering as it does the remit of the job and the responsibility and time involved. It also makes itself aware of the directors' fees of other investment trust companies.

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

The Annual General Meeting is the pivotal point in the relationship between the Board of Directors and shareholders and is the occasion when the Board accounts for itself in public meeting. It regards any bona fide issue that any shareholder raises as one that should be put to all shareholders at the AGM.

The Annual General Meeting provides shareholders with an opportunity to vote on certain issues that are not ultimately delegated to the Board of Directors. This includes the re-appointment of Directors at least every three years. In addition to the normal matters of approving the accounts, the election of Directors, the appointment of the auditors and the issue of new shares, your Board has concluded that it should enable shareholders to decide on whether they wish to continue the Company's existence by putting a "continuation vote" before the shareholders at every third AGM.

Compliance with the Combined Code

The Board considers that the Company has complied with the provisions of the Combined Code throughout the year to 31 August 2002 with the following exception:

- As the Chairman is independent the Board has not appointed another senior independent director.

Internal Control

The Code requires the Board to review the effectiveness of internal controls rather than simply internal financial controls, following the final publication of the Turnbull Committee's guidance on 27 September 1999. Prior to January 2000 our procedures were reviewed so as to ensure that the Committee's guidance was embedded in our internal control of ongoing business, operational and compliance as well as financial risk management. The controls operated by the Board in the year to 31 August 2002 include the authorisation of the investment strategy and regular review 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 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 controls. The effectiveness of the internal 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 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 since the assets of the Company consist mainly of securities which are readily realizable and accordingly the Company has adequate financial resources to continue in operational existence for the foreseeable future.

On behalf of the Board
Alex Hammond-Chambers
25 October 2002

Independent Auditors' Report to the Members of Fidelity Special Values PLC

We have audited the financial statements which comprise the statement of total return, the balance sheet and the cash flow statement and notes 1 to 24 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

The other information comprises only the Chairman's Statement, the Investment Manager's Report, the Directors' Report, and the Application of Corporate Governance statement.

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

Basis of audit 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 misstatement, 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 August 2002 and of its total return and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
25 October 2002

Statement of Total Return (incorporating the revenue account)

for the year ended 31 August 2002

		2002			2001		
	notes	revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
(Losses)/gains on investments		-	(14,511)	(14,511)	-	12,330	12,330
Income	2	3,759	-	3,759	3,925	-	3,925
Investment management fee	3	(1,404)	-	(1,404)	(1,313)	-	(1,313)
Other expenses	4	(388)	-	(388)	(330)	-	(330)
Exchange (losses)/gains		-	(163)	(163)	-	19	19
Net return/(loss) before finance costs and taxation		**1,967**	**(14,674)**	**(12,707)**	**2,282**	**12,349**	**14,631**
Interest payable	6	(1,409)	-	(1,409)	(1,186)	-	(1,186)
Return/(loss) on ordinary activities before tax		**558**	**(14,674)**	**(14,116)**	**1,096**	**12,349**	**13,445**
Tax on ordinary activities	7	(9)	-	(9)	-	-	-
Return/(loss) on ordinary activities after tax for the period attributable to equity shareholders		**549**	**(14,674)**	**(14,125)**	**1,096**	**12,349**	**13,445**
Dividend	8	(600)	-	(600)	(939)	-	(939)
Transfer (from)/to reserves		**(51)**	**(14,674)**	**(14,725)**	**157**	**12,349**	**12,506**
Return per ordinary share							
Basic		1.39p	(37.08p)	(35.69p)	3.04p	34.27p	37.31p
Fully-diluted		1.35p	(36.16p)	(34.81p)	2.71p	30.53p	33.24p

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 28 to 39 form an integral part of the accounts

Balance Sheet

as at 31 August 2002

	notes	2002 £'000	2001 £'000
Fixed assets			
Investments	10	**125,652**	119,769
Current assets			
Debtors - amounts falling due within one year	12	446	2,230
Cash at bank		1,917	9,416
		2,363	11,646
Creditors - amounts falling due within one year			
Fixed rate unsecured loans		-	(10,000)
Other creditors	13	(2,640)	(2,382)
		(2,640)	(12,382)
Net current liabilities		**(277)**	(736)
Total assets less current liabilities		**125,375**	119,033
Creditors - amounts falling due after more than one year			
Fixed rate unsecured loans	15	(20,000)	(10,000)
Total net assets		**105,375**	109,033
Capital and reserves			
Called up share capital	16	10,526	9,393
Share premium account	17	37,731	28,409
Capital redemption reserve	17	404	404
Other reserves			
Warrant exercise reserve	17	1,586	744
Warrant reserve	17	970	1,200
Capital reserve - realised	17	69,265	60,732
Capital reserve - unrealised	17	(16,388)	6,819
Revenue reserve	17	1,281	1,332
Total equity shareholders' funds	19	**105,375**	109,033
Net asset value per ordinary share:			
Basic	18	250.28p	290.20p
Fully-diluted	18	238.87p	270.76p

The accounts on pages 25 to 39 were approved by the Board of Directors on 25 October 2002 and were signed on its behalf by:

Alex Hammond-Chambers, Chairman

The notes on pages 28 to 39 form an integral part of these accounts

Cash Flow Statement

for the year ended 31 August 2002

	notes	2002 £'000	2001 £'000
Operating activities			
Investment income received		2,424	2,647
Underwriting commission received		15	-
Deposit interest received		117	227
Investment management fee paid		(1,412)	(1,269)
Directors' fees paid		(59)	(54)
Other cash payments		(334)	(208)
Net cash inflow from operating activities	22	**751**	**1,343**
Returns on investments and servicing of finance			
Interest paid		(1,376)	(1,191)
Net cash outflow from servicing of finance		**(1,376)**	**(1,191)**
Taxation			
UK income tax recovered		9	14
Tax recovered		**9**	**14**
Financial Investment			
Purchase of investments		(78,730)	(60,503)
Realised currency (losses)/gains		(163)	19
Disposals of investments		61,925	57,410
Net cash outflow from financial investment		**(16,968)**	**(3,074)**
Equity Dividend paid		**(950)**	**(813)**
Net cash outflow before financing		**(18,534)**	**(3,721)**
Financing			
Exercise of warrants		816	447
Fixed rate 5.65% unsecured loan drawn down		-	4,000
Fixed rate 5.9704% unsecured loan drawn down		-	6,000
Fixed rate 6.42% unsecured loan drawn down		10,000	-
Repayment of fixed rate 7.095% unsecured loan		-	(3,500)
Repayment of fixed rate 7.04094% unsecured loan		-	(2,500)
Repayment of fixed rate 5.65% unsecured loan		(4,000)	-
Repayment of fixed rate 5.9704% unsecured loan		(6,000)	-
Issue of ordinary shares		10,222	5,037
Net cash inflow from financing		**11,038**	**9,484**
(Decrease)/increase in cash	20	**(7,496)**	**5,763**

The notes on pages 28 to 39 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) for Investment Trusts dated December 1995.

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 Financial Reporting Standard (FRS) 4, 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 dividends are accounted for net of any tax credit. Unfranked investment income includes tax deducted at source. Interest receivable on short-term loans and deposits, 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 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 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. Finance costs are accounted for on an accruals basis and in accordance with the provisions of FRS4 "Capital Instruments".

g) 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.

h) Deferred taxation is provided for in respect of all timing differences that have originated but not reversed by the balance sheet date. A deferred tax asset is only recognised to the extent that it is recoverable.

Deferred tax is recorded in accordance with FRS19 'Deferred Tax'. The adoption of this standard has had no impact on current or prior year results.

2 Income

	2002 £'000	2001 £'000
Income from investments		
Franked investment income	2,219	2,362
UK unfranked investment income	31	22
Overseas dividends	302	193
Overseas scrip dividends	7	105
UK scrip dividends	1,067	1,016
	3,626	**3,698**
Other income		
Deposit interest	118	227
Underwriting commission	15	-
Total income	**3,759**	**3,925**
Total income comprises		
Dividends	3,595	3,676
Interest from securities	31	22
Other income	133	227
	3,759	**3,925**
Income from investments		
Listed UK	3,317	3,400
Listed overseas	309	298
	3,626	**3,698**

3 Investment management fee

	2002 £'000	2001 £'000
Investment management fee	1,195	1,118
Irrecoverable VAT thereon	209	195
	1,404	1,313

4 Other expenses

	2002 £'000	2001 £'000
Directors' fees (including National Insurance contributions and irrecoverable VAT)	59	58
Other	331	278
Expense reduction*	(16)	(20)
Auditors' remuneration		
Audit	14	14
	388	330

* 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.

Notes to the Accounts

5 Directors' fees

	2002 £'000	2001 £'000 (Restated)
Directors' fees	52	50

During the year the Chairman, Alex Hammond-Chambers, received fees of £16,833 (2001: £16,333). Sir Richard Brooke, Douglas Kinloch Anderson and James Laurenson received fees of £11,434 (2001: £11,200). Simon Haslam waived his fees in both 2002 (£11,434) and 2001 (£11,200). The maximum aggregate fee payable under the Company's Articles of Association is £75,000.

6 Interest Payable

	2002 £'000	2001 £'000
Repayable within 5 years		
Bank overdraft	4	-
Fixed rate unsecured loan	1,405	1,186
	1,409	**1,186**

7 Tax on ordinary activities

a) Analysis of charge in period

	2002 £'000	2001 £'000
Overseas taxation	16	11
Avoir fiscal	(7)	-
Prior year adjustment	-	(11)
	9	**-**

b) Factors affecting the tax charge for the period

	2002 £'000	2001 £'000
Net income before taxation	558	1096
Corporation tax of 30% (2001: 30%)	168	329
Effects of:		
Income not included for tax purposes	(991)	(1018)
Adjustments in respect of prior periods	-	(12)
Increase in management expenses	828	693
Overseas taxation	15	11
Overseas tax expensed	(7)	(3)
Avoir fiscal	(7)	-
Avoir fiscal tax credit	3	-
	(159)	(329)
Current corporation tax charge (note 7a)	9	-

8 Dividends

	2002 £'000	2001 £'000
Final proposed dividend of 1.40p pence per share (2001: 2.50p)	600	939

9 Return per ordinary share

	2002 revenue	2002 capital	2002 total	2001 revenue	2001 capital	2001 total
Basic	1.39p	(37.08p)	(35.69p)	3.04p	34.27p	37.31p
Fully-diluted	1.35p	(36.16p)	(34.81p)	2.71p	30.53p	33.24p

Returns per ordinary share are based on the net revenue return on ordinary activities after taxation of £549,000 (2001: £1,096,000), and the capital depreciation in the year of £14,674,000 (2001: appreciation of £12,349,000) and on 39,570,277 ordinary shares (2001: 36,035,959), being the weighted average number of ordinary shares in issue during the year.

According to the provisions of FRS14, the fully-diluted returns have been calculated on the assumptions that the warrants in issue were converted on the first day of the financial period on a weighted average basis for the period over which they were outstanding, and that the proceeds from conversion have been used by the Company to purchase its own shares at a fair market price.

	revenue £'000	capital £'000	weighted average no. of shares 000s	revenue earnings per share pence	capital earnings per share pence
Basic return per share					
Return on ordinary activities after tax attributable to ordinary shareholders	549	(14,674)	39,570	1.39	(37.08)
Effect of dilutive warrants	**-**	**-**	**1,007**	**(0.04)**	**0.92**
Fully-diluted return per share					
Return on ordinary activities after tax attributable to ordinary shareholders after assumed exercise of warrants	549	(14,674)	40,577	1.35	(36.16)

10 Investments

	2002 £'000	2001 £'000
Listed UK	108,044	107,179
Listed overseas	14,040	9,761
Total listed investments	**122,084**	**116,940**
Unlisted investments* - Directors' valuation	3,568	2,829
	125,652	**119,769**

	listed UK £'000	listed overseas £'000	unlisted* £'000	total £'000
Opening book cost	99,461	9,367	4,122	112,950
Opening unrealised appreciation/(depreciation)	7,718	394	(1,293)	6,819
Opening valuation	**107,179**	**9,761**	**2,829**	**119,769**
Movements in the year				
Purchases at cost	67,673	10,907	1,818	80,398
Sales - proceeds	(51,206)	(8,548)	(250)	(60,004)
Sales - realised gains/(losses) on sales	6,878	2,131	(313)	8,696
Transfer on listing/delisting - cost	(858)	-	858	-
Transfer on listing/delisting - unrealised appreciation	493	-	(493)	-
Decrease in unrealised appreciation	(22,115)	(211)	(881)	(23,207)
Closing valuation	**108,044**	**14,040**	**3,568**	**125,652**
Closing book cost	121,948	13,857	6,235	142,040
Closing unrealised appreciation/(depreciation)	(13,904)	183	(2,667)	(16,388)
	108,044	**14,040**	**3,568**	**125,652**

* including stocks quoted on the Alternative Investment Market (AIM) of £3,195,000 (2001: £2,556,000)

	2002 £'000	2001 £'000
Realised gains on sales	8,696	11,639
(Decrease)/increase in unrealised appreciation	(23,207)	691
Gains on investments	**(14,511)**	12,330

The annualised portfolio turnover rate for the year was 61% (2001:55%).

11 FRS - 13 Financial Instruments

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

The Company's financial instruments comprise:

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

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

Market price risk

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

Fair value of financial assets and liabilities are stated in the balance sheet at values which are not materially different to their fair values, with the exception of the long term fixed rate unsecured loan, whose fair value as at 31 August 2002 given below has been calculated by discounting future cash flows at current UK sterling interest rates.

	2002		2001	
	fair value £'000	book value £'000	fair value £'000	book value £'000
Fixed rate unsecured loan @ 7.82% per annum	**11,101**	**10,000**	10,854	10,000
Fixed rate unsecured loan @ 6.42% per annum	**10,736**	**10,000**	-	-

Interest rate risk

The Company finances its operations through share capital raised. In addition, financing has been obtained through a UK sterling-denominated fixed rate unsecured bank loan, which falls due for repayment in January 2005. The Company is therefore not exposed to a financial risk arising as a result of any increase in UK sterling interest rates on this loan. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

The Company's financial assets are mainly invested in equity shares and other investments which neither pay interest nor have a maturity date. The Company also has substantial cash balances of £1,917,000 (2001: £9,416,000). The rate of interest on the cash balances is currently 3.31%, consequently the risk of a decrease in cash interest earned is low.

The interest profile of the Company's financial liabilities excluding short-term creditors, as at 31 August 2002 and 2001 was as follows:

Currency	2002 fixed rate financial liabilities £'000	2001 fixed rate financial liabilities £'000
UK Sterling	20,000	10,000

Currency	weighted average interest rate £'000	fixed rate financial liabilities: weighted average period for which rate is fixed £'000
UK Sterling	7.12%	28 months

Foreign currency risk

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

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

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

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

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

The following is an analysis of the Company's foreign currency exposure as at 31 August 2002 and 2001:

	2002			2001		
Currency	Foreign currency monetary assets £000	Foreign currency monetary liabilities £000	Net foreign currency monetary assets £000	Foreign currency monetary assets £000	Foreign currency monetary liabilities £000	Net foreign currency monetary assets £000
Australian dollar	-	-	-	1,016	-	1,016
Canadian dollar	-	-	-	-	-	-
Euro	40	-	40	4,637	-	4,637
Hong Kong dollar	435	-	435	-	-	-
Norwegian krone	2,348	-	2,348	1,167	-	1,167
South African rand	2,115	-	2,115	578	-	578
US dollar	1,667	-	1,667	2,123	(5)	2,118
Total	**6,605**	**-**	**6,605**	**9,521**	**(5)**	**9,516**
UK sterling	121,410	(22,640)	98,770	121,894	(22,377)	99,517
Balance sheet total	**128,015**	**(22,640)**	**105,375**	**131,415**	**(22,382)**	**109,033**

Liquidity risk

The Company's assets mainly comprise readily realisable securities, which can be easily sold to meet funding commitments if necessary. Short-term flexibility is achieved by the use of overdraft facilities as required. Details of the Company's borrowing commitments are explained in notes 13 to 15 to the accounts.

The maturity profile of the Company's financial liabilities at 31 August 2002 and 2001 is as follows:

	2002 £000	2001 £000
Within one year, or on demand	-	10,000
After more than two years but less than five years	**20,000**	10,000
	20,000	**20,000**

Short-term debtors and other shot-term creditors are excluded from the above analysis.

Counterparty risk

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

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

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

12 Debtors

	2002 £'000	2001 £'000
Securities sold for future settlement	18	1,939
Income tax recoverable	3	9
Overseas tax recoverable	41	15
Amounts receivable for issue of shares	29	-
Other debtors	355	267
	446	**2,230**

13 Creditors - amounts falling due within one year

	2002 £'000	2001 £'000
Securities purchased for future settlement	1,491	899
Proposed dividends	590	939
Accruals	425	440
Loan interest payable	134	101
Overdraft	-	3
	2,640	**2,382**

14 Creditors - fixed rate loans

	2002 £'000	2001 £'000
Fixed rate unsecured loan @ 5.65% per annum	-	4,000
Fixed rate unsecured loan @ 5.9704% per annum	-	6,000
	-	**10,000**

15 Creditors - amounts falling due after one year

	2002 £'000	2001 £'000
Fixed rate unsecured loan @ 7.82% per annum	10,000	10,000
Fixed rate unsecured loan @ 6.42% per annum	10,000	-
	20,000	**10,000**

The first fixed rate loan from JPMorgan Chase Bank of £10,000,000 was drawn down on 28 January 2000 with a maturity date of 26 January 2005 at an interest rate of 7.82% per annum.

The second fixed rate loan from JPMorgan Chase Bank of £10,000,000 was drawn down on 31 January 2002 with a maturity date of 26 January 2005 at an interest rate of 6.42% per annum.

16 Called-up share capital

	2002 £'000	2001 £'000
Authorised:		
160,000,000 (2001: 160,000,000) ordinary shares of 25 pence each	**40,000**	40,000
Issued, allotted and fully paid:		
Beginning of year		
37,572,095 (2001: 35,357,755) ordinary shares of 25 pence each	9,393	8,839
1 January 2002: Exercise of 816,727 warrants (2001: 446,751)	204	112
21 September 2001 to 29 August 2002: Issue 3,714,182 ordinary shares	929	442
End of year		
42,103,004 (2001: 37,572,095) ordinary shares of 25 pence each	10,526	9,393

At 31 August 2002 there were 3,460,647 (2001: 4,277,374) warrants outstanding. On 1 January 2002, 816,727 warrants were exercised at 100p per ordinary share. Holders have the right to subscribe for ordinary shares at 100p on 1 January in either of the years 2003 and 2004.

17 Reserves

	share premium account £'000	capital redemption reserve £'000	warrant exercise reserve £'000	warrant reserve £'000	capital reserve realised £'000	capital reserve unrealised £'000	revenue reserve £'000
Beginning of year	**28,409**	**404**	**744**	**1,200**	**60,732**	**6,819**	**1,332**
Exchange gains on other net assets	-	-	-	-	(163)	-	-
Net gain on realisation of investments	-	-	-	-	8,696	-	-
Increase in unrealised appreciation	-	-	-	-	-	(23,207)	-
Retained net revenue for year	-	-	-	-	-	-	(51)
Issue of ordinary shares	9,322	-	-	-	-	-	-
Exercise of warrants	-	-	842	(230)	-	-	-
End of year	**37,731**	**404**	**1,586**	**970**	**69,265**	**(16,388)**	**1,281**

18 Net asset value per share

The basic net asset value per ordinary share is based on net assets of £105,375,000 (2001: £109,033,000) and on 42,103,004 (2001: 37,572,095) ordinary shares, 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 3,460,647 at 31 August 2002 (2001: 4,277,374) were exercised on that date. This basis of the calculation is considered to be more appropriate than the basis given in FRS14 as it is consistent with the calculation of fully-diluted net asset value which is prepared in accordance with guidelines laid down by the Association of Investment Trust Companies and is provided to the London Stock Exchange on an ongoing basis.

19 Reconciliation of movement in shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds	**109,033**	91,043
Exercise of warrants	816	447
Issue of shares	10,251	5,037
Total recognised (losses)/gains before dividends	(14,125)	13,445
Dividend payable	(600)	(939)
Closing shareholders' funds	**105,375**	109,033

20 Reconciliation of net cash movements to movement in net debt

	2002 £'000	2001 £'000
Beginning of year	**(10,587)**	(12,350)
Net cash (outflow)/inflow	(7,496)	5,763
Fixed rate 5.65% unsecured loan drawn down	-	(4,000)
Fixed rate 5.9704% unsecured loan drawn down	-	(6,000)
Fixed rate 6.24% unsecured loan drawn down	(10,000)	-
Repayment of fixed rate 7.095% unsecured loan	-	3,500
Repayment of fixed rate 7.04094% unsecured loan	-	2,500
Repayment of fixed rate 5.65% unsecured loan	4,000	-
Repayment of fixed rate 5.9704% unsecured loan	6,000	-
Change in net debt	**(7,496)**	1,763
End of year	**(18,083)**	(10,587)

	2002 £'000	change in the year £'000	2001 £'000
Analysis of balances			
Cash at bank	1,917	(7,499)	9,416
Fixed rate unsecured loans	(20,000)	-	(20,000)
Overdraft	-	3	(3)
End of year	**(18,083)**	**(7,496)**	(10,587)

21 Analysis of changes in financing during the year

	2002 share capital £'000	2002 loans £'000	2002 total £'000	2001 share capital £'000	2001 loans £'000	2001 total £'000
Beginning of year	40,150	20,000	60,150	34,666	16,000	50,666
Cash inflow from exercise of warrants	816	-	816	447	-	447
Fixed rate 5.65% unsecured loan drawn down	-	-	-	-	4,000	4,000
Fixed rate 5.9704% unsecured loan drawn down	-	-	-	-	6,000	6,000
Repayment of fixed rate 7.095% unsecured loan	-	-	-	-	(3,500)	(3,500)
Repayment of fixed rate 7.04094% unsecured loan	-	-	-	-	(2,500)	(2,500)
Issue of shares	10,251	-	10,251	5,037	-	5,037
End of year	**51,217**	**20,000**	**71,217**	**40,150**	**20,000**	**60,150**

22 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	2002 £'000	2001 £'000
Net return before finance costs and taxation	1,967	2,282
Scrip dividends	(1,074)	(1,121)
(Decrease)/increase in other creditors	(15)	113
(Increase)/decrease in other debtors	(88)	100
Tax on investment income	(39)	(31)
Net cash inflow from operating activities	**751**	**1,343**

23 Contingent liabilities and capital commitments

There were no contingent liabilities or capital commitments as at 31 August 2002 (2001: nil).

24 Related party disclosures

The Directors have complied with the provisions of FRS8 which require disclosure of related party transactions and balances. Full details are set out in the Directors' Report on page 17.

Investor Information

The objective of Fidelity Special Values is to achieve long-term capital growth from an actively managed portfolio of special situation investments, mainly in the UK.

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

How to invest - the ordinary shares and warrants 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 Individual Savings Account** (ISA).

The Share Plan allows an investor to make regular monthly payments (minimum £50 per month) or to invest a lump sum (initial minimum £1,000, thereafter £250) into any of the five investment trusts managed by Fidelity. The only plan charge for investors 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. For those investors who use a professional adviser, the Share Plan allows for commission of up to 3% to be paid direct to your adviser.

The Fidelity ISA was launched on 6 April 1999. Like its predecessor, the PEP, it allows you to build up your savings free from personal liability to income and capital gains tax. You are able to invest up to £7,000 in the tax year 2002/2003. There is an initial charge of 3.25% and for those investors who use a professional adviser, the ISA allows for commission of up to 3% to be paid directly to your adviser. The full range of Fidelity's investment trusts is available through the ISA. For more information about ISAs, you can request a free guide from Fidelity on 0800 41 41 15.

The PEP - no further PEP investments may be made after 5 April 1999, but existing PEPs can continue to grow tax free.

Since 6 April 2001 the range of investments that can be held in a PEP has been expanded to correspond with those available for investment in an ISA.

For PEP and ISA investors, the reclaimable tax credit attached to dividends is 10% until 5 April 2004. Interest on uninvested cash in a stocks and shares component of an ISA is subject to a 20% flat rate charge, which extinguishes any liability to tax on the interest. The value of tax savings and eligibility to invest in an ISA will depend on individual circumstances and all tax rules may change in the future.

The Fidelity ISA is offered and managed by Financial Administration Services Limited and the Fidelity Share Plan is offered by Fidelity Investments International. Both companies are regulated by the Financial Services Authority.

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

Please note that the value of investments and the income from them may fall as well as rise and the investor may not get back the amount originally invested. Fidelity only provides information about its products and will not give investment advice.

Should you wish to seek advice, please contact an independent financial adviser. For the purpose of Sections 21 and 25 of the Financial Services and Markets Act 2000, the content of this report has been approved by Fidelity Investments International, regulated by the Financial Services Authority.

Annual General Meeting - with this Annual Report you will find an invitation to attend the AGM at noon on 13 December 2002 and it is hoped that as many shareholders as possible, including those who hold their shares through the Share Plan, PEP and the ISA 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 pages 42 to 44.

Price Information - the mid-market prices of the ordinary shares and warrants 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 4782 (share price) or 4764 (warrant price) or 4783 (Loan Stock). The Reuters code for Fidelity Special Values is FSV.L and the ICV page can be accessed by entering *51079#.

NAV Information - the net asset value of the Company is calculated on a daily basis and released to the Stock Exchange.

Capital Gains Tax - your Directors have been advised that, for the purposes of calculating an investor's possible liability to capital gains tax, the base cost of shares and warrants, acquired at the time of the Company's launch, is 94.95p for ordinary shares and 25.25p for warrants. All UK individuals, under present legislation, are permitted to have £7,700 of capital gains in the current tax year ie 2002/2003 (£7,500 2001/2002 tax year) before being liable for capital gains tax. Capital gains are treated as the top slice of income and will be taxable at 10% for taxpayers up to the starting rate limit, 20% for basic rate taxpayers or 40% for higher rate taxpayers.

Financial Calendar - the key dates in the Company's calendar for the year from 31 August 2002.

31 August - financial year end

25 October - announcement of results

13 November - publication of this Annual Report

13 December - Annual General Meeting

16 December - dividend payment date

1 January 2003 - exercise date on which warrantholders may choose, for each warrant held, to pay £1 for an ordinary share

28 February - half year end

April - announcement of interim results to 28 February

end of April - publication of Interim Report

Contact Information

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 or warrants - the Company's registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
Telephone: 020 8639 2000

Details of individual shareholdings and other information can also be obtained from the registrars' website:
http://www.capita-irg.com

Share Plan investors - Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
Telephone: 0800 41 41 20

ISA/PEP investors - Fidelity, using the free telephone numbers given above, or by writing to:
Fidelity Investments
Oakhill House
130 Tonbridge Road
Hildenborough
Tonbridge
Kent TN11 9DZ

General Enquiries - should be made to Fidelity, the Investment Manager and Secretary, at the Company's registered office:

Fidelity Investments International
Investment Trusts
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth, Surrey KT20 6RP
Fax: 01737 836892
Internet site: http://www.fidelity.co.uk/fidinv.html

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Fidelity Special Values PLC will be held at 25 Cannon Street, London EC4M 5TA, on 13 December 2002 at 12 noon for the following purposes:

Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 August 2002.
2. To approve a final dividend.
3. To re-elect Mr Alex Hammond-Chambers as a Director.
4. To re-elect Mr Simon Haslam as a Director.
5. To re-elect Mr James Laurenson as a Director.
6. To re-appoint PricewaterhouseCoopers as Auditors of the Company, to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company and to authorise the Directors to determine their remuneration.

Special Business

Resolutions 7 and 8 will, if approved, authorise the Directors to allot a limited number of currently unissued ordinary shares for cash without first offering such shares to existing ordinary shareholders pro rata to their existing holdings. The limit set by the Board is 10% of the number of ordinary shares of the Company in issue on 25 October 2002. The Directors will only issue new shares under this authority to take advantage of opportunities in the market as they arise and only if they believe it is advantageous to the Company's shareholders to do so.

To consider and, if thought fit, to pass the following resolutions, of which Resolution 7 will be proposed as an ordinary resolution and Resolution 8 as a special resolution:

7. THAT the Board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,062,500, which authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, on the date which is 15 months after the passing of this resolution (unless previously revoked or varied by the Company in general meeting), save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8. THAT the Board be and it is hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash, pursuant to the authority conferred by the previous resolution, as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

    (a) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer or a scrip dividend alternative in favour of ordinary shareholders and in favour of holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of 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 to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever); and

(b) the allotment (otherwise than pursuant to sub-paragraph 8(a) above) of equity securities up to an aggregate nominal value of £1,062,500; and

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

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, on the date which is 15 months after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Resolution 9 is a special resolution which, if approved, will renew the Company's authority to purchase its shares for cancellation. The limit set by the Board is 14.8% of the number of ordinary shares in issue on 25 October 2002. Purchases of shares will be made at the discretion of the Board and within guidelines set from time to time by the Board and in the light of prevailing market conditions. Purchases will only be made in the market at prices below the prevailing net asset value per share, thereby resulting in an increased net asset value per share.

9. THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of shares of 25p each in the capital of the Company (the "shares") provided that:

   a) the maximum number of shares hereby authorised to be purchased shall be 6,300,000;

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

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

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

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

By Order of the Board
Secretary
13 November 2002

Notice of Annual General Meeting

Notes:

1 A shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.

2 A form of proxy is enclosed for use by shareholders. Completion and return of the form of proxy will not prevent a shareholder from subsequently attending the meeting and voting in person if they so wish.

3 To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrars, Capita IRG plc, PO Box 25, Beckenham, Kent BR3 3BR not less than 48 hours before the time for holding the meeting or adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded not less than 24 hours before the time appointed for the taking of the poll at which it is to be used.

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

5 Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company at 5.30pm on 11 December 2002 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 5.30pm on 11 December 2002 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

6 No Director has a service contract with the Company.

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Directory

Board of Directors
Alex Hammond-Chambers (Chairman)
Sir Richard Brooke
Simon Haslam
Douglas Kinloch Anderson
James Laurenson

Manager, Secretary and Registered Office
Fidelity Investments International
Beech Gate
Millfield Lane
Lower Kingswood
Tadworth
Surrey
KT20 6RP

Financial Advisers and Stockbrokers
UBS Warburg Ltd
1 Finsbury Avenue
London
EC2M 2PA

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

Bankers and Custodian
JP Morgan Chase Bank (London Branch)
125 London Wall
London
EC2Y 5AJ

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

Lawyers
Slaughter and May
35 Basinghall Street
London
EC2V 5DB

FIDELITY
SPECIAL VALUES PLC

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Tadworth
Surrey KT20 6RP