



MONTANARO

European Smaller Companies Trust plc

Interim Report 2012

The investment objective of **Montanaro European Smaller Companies Trust plc** ('the Company') is to achieve capital growth by investing principally in Continental European quoted smaller companies.

The Company's benchmark index is the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

The Company was launched in May 1981. Its current objective and investment policy were adopted in September 2006. It is listed on the London Stock Exchange.

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Highlights

for the six months ended 30 September 2012

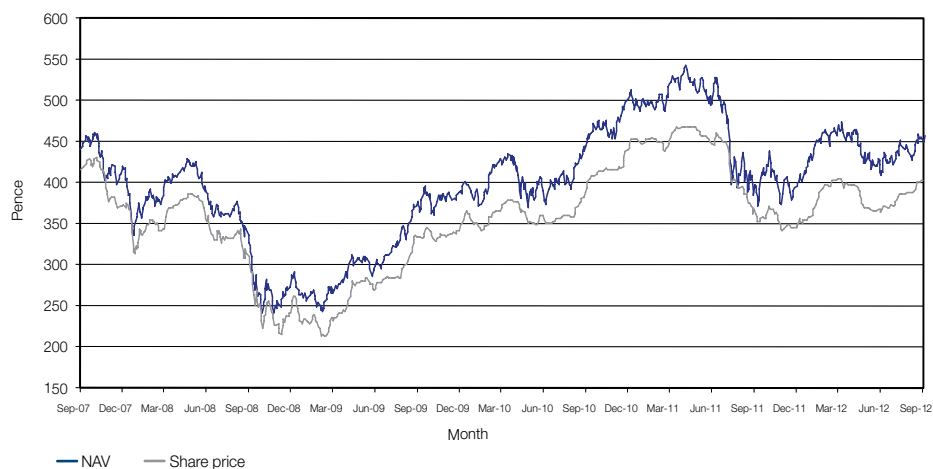
Results

- > Share price -0.6%
- > Net asset value ('NAV') per Ordinary Share -2.2%
- > Benchmark index -5.3%
- > Total assets -5.5% (£88.9 million)

	As at 30 September 2012	As at 31 March 2012
Net assets ('000s)	£76,697	£81,278
NAV per Ordinary Share	461.1p	471.6p
Ordinary Share Price	402.5p	405.0p
Discount	12.7%	14.1%
Gearing*	6.8%	1.5%

* (Current liabilities – current assets)/net assets.

NAV and Share Price for the five years ended 30 September 2012



Chairman's Statement

During the six month period ended 30 September 2012, the Company's net asset value ("NAV") fell by 10.5p per share, or 2.2%, to 461.1p per share. The most significant influence on the NAV performance was the decline in the sterling value of the Euro and the Swiss Franc, which cost the NAV approximately 12p per share, whilst share buy backs (see below) contributed 2.6p per share. For comparison, the Company's benchmark index, the MSCI Europe Small Cap (ex UK) Index, fell by 5.3% in sterling terms.

The share price fell by 0.6% during the period, to 402.5p, as the discount narrowed slightly from 14.1% to 12.7%.

Since the appointment of Montanaro Asset Management Limited as Investment Manager in September 2006, the NAV per share has risen by 34.0% compared with a fall of 0.7% in the benchmark index.

European stock markets have continued to be affected by concerns over sovereign debt and ongoing speculation as to the future of the Eurozone. Following repeated proclamations by the European Central Bank of its commitment to the Euro, sentiment improved as the period progressed and European stock markets performed better than all other developed world stock markets in the third quarter of 2012.

Most of the companies within the portfolio have reported profits ahead of expectations and continue to express a cautiously confident view on the future. The portfolio remains comprised of high quality growth companies, which are predominantly located in Northern Europe.

Share Buy Backs and Treasury Shares

During the period the Company bought back 600,000 Ordinary Shares to be held in Treasury, providing an enhancement of 2.6p to the NAV per share. At the end of the period the Company held 815,000 Ordinary Shares in Treasury, available to be re-issued. The Board's stated policy on treasury shares is to re-issue shares at a discount to the NAV per share provided that such discount is narrower than the weighted average discount to the NAV per share at the time the shares were bought back by the Company.

Earnings and Dividends

Revenue earnings per share for the period were 6.9p (2011: 6.2p). The Board has declared an unchanged interim dividend of 1.75p per Ordinary Share, payable on 11 January 2013 to shareholders on the register on 14 December 2012.

Borrowings

The Company has a flexible €15 million revolving credit facility which enables gearing to be increased or decreased as appropriate. The level of gearing was 6.8% as at 30 September 2012, compared to 1.5% at the beginning of the period, reflecting a more positive outlook by the Investment Manager.

Outlook

Markets are likely to remain volatile as investors remain concerned about the prospects for Europe, both in terms of the economic outlook and the future for the Euro. Valuations of shares of European smaller companies are, however, generally attractive. With the Investment Manager's continued approach of investing in companies with strong management, sound balance sheets and good business franchises, the Board believes that the Company remains well positioned to deliver attractive returns for shareholders over the longer term.

A R IRVINE

Chairman

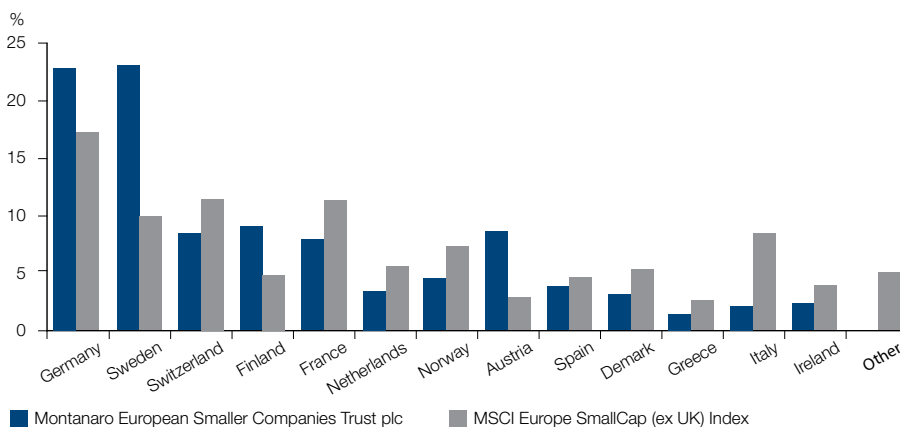
21 November 2012

Portfolio Summary

Twenty Largest Holdings
as at 30 September 2012

Holding	Country	Sector	Value £'000	% of portfolio
Schoeller Bleckmann	Austria	Energy equipment & services	2,978	3.6%
Elekta	Sweden	Health care equipment	2,950	3.6%
Rational	Germany	Machinery	2,856	3.5%
Fugro	Netherlands	Energy equipment & services	2,740	3.3%
Fuchs Petrolub	Germany	Chemicals	2,536	3.1%
Christian Hansen	Denmark	Chemicals	2,522	3.1%
GFK	Germany	Media	2,506	3.1%
Virbac	France	Pharmaceuticals	2,457	3.0%
Lem Holding	Switzerland	Electronic & electrical equipment	2,389	2.9%
TGS Nopec Geophysical	Norway	Energy equipment & services	2,376	2.9%
VZ Holding	Switzerland	Financial services	2,279	2.8%
Belimo Holdings	Switzerland	Building products	2,192	2.7%
Kapsch Trafficcom	Austria	Electronic & electrical equipment	2,151	2.6%
Outotec	Finland	Construction & engineering	2,116	2.6%
Pfeiffer Vacuum Technology	Germany	Industrial engineering	2,083	2.5%
Vacon	Finland	Electronic & electrical equipment	2,059	2.5%
Enquest	Sweden	Oil & gas	1,975	2.4%
Hufvudstaden	Sweden	Real estate	1,962	2.4%
AF Group	Sweden	Industrial engineering	1,934	2.4%
Stratec Biomedical	Germany	Health care equipment	1,905	2.3%
Twenty Largest Holdings			46,966	57.3%

Geographical Analysis vs Index as at 30 September 2012



Consolidated Statement of Comprehensive Income (unaudited)

for the six months ended 30 September 2012

Notes	Six months to 30 September 2012			Six months to 30 September 2011			Year to 31 March 2012 (Audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Capital losses									
on Investments									
Losses on Investments									
held at fair value	–	(2,451)	(2,451)	–	(25,945)	(25,945)	–	(10,737)	(10,737)
Exchange gains	–	74	74	–	261	261	–	310	310
	–	(2,377)	(2,377)	–	(25,684)	(25,684)	–	(10,427)	(10,427)
Revenue									
Investment income	1,754	–	1,754	1,751	–	1,751	2,309	–	2,309
Other operating income	6	–	6	37	–	37	26	–	26
Total income	1,760	(2,377)	(617)	1,788	(25,684)	(23,896)	2,335	(10,427)	(8,092)
Expenditure									
Management expenses	3 (111)	(206)	(317)	(128)	(237)	(365)	(241)	(447)	(688)
Other expenses	(249)	–	(249)	(240)	–	(240)	(515)	–	(515)
Total expenditure	(360)	(206)	(566)	(368)	(237)	(605)	(756)	(447)	(1,203)
Profit/(loss) before finance costs and tax									
Finance costs	1,400	(2,583)	(1,183)	1,420	(25,921)	(24,501)	1,579	(10,874)	(9,295)
	(76)	(140)	(216)	(80)	(149)	(229)	(172)	(319)	(491)
Profit/(loss) before tax	1,324	(2,723)	(1,399)	1,340	(26,070)	(24,730)	1,407	(11,193)	(9,786)
Tax	(177)	–	(177)	(296)	–	(296)	(289)	–	(289)
Total comprehensive income	1,147	(2,723)	(1,576)	1,044	(26,070)	(25,026)	1,118	(11,193)	(10,075)
Return per share	4 6.9p	(16.3)p	(9.4)p	6.2p	(153.9)p	(147.7)p	6.5p	(65.3)p	(58.8)p

The total column of this statement represents the Group's Income Statement and Statement of Comprehensive Income, prepared in accordance with IFRS.

The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

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

No operations were acquired or discontinued during the period.

All of the profit/(loss) and total comprehensive income for the period is attributable to the owners of the Company.

Condensed Group Balance Sheet (unaudited)

as at 30 September 2012

	Notes	As at 30 September 2012 £'000	As at 30 September 2011 £'000	As at 31 March 2012 (Audited) £'000
Non-current assets				
Investments held at fair value through profit and loss		81,945	75,324	82,502
Current assets				
Other receivables		117	17	192
Cash and cash equivalents		6,805	5,297	11,301
		6,922	5,314	11,493
Total assets		88,867	80,638	93,995
Current liabilities				
Trade and other payables		(12,170)	(13,261)	(12,717)
Total liabilities		(12,170)	(13,261)	(12,717)
Net assets		76,697	67,377	81,278
Capital and reserves				
Called-up share capital		8,724	8,724	8,724
Share premium account		5,178	3,935	5,178
Capital redemption reserve		2,212	2,212	2,212
Capital reserve		57,473	49,688	62,577
Revenue reserve		3,110	2,818	2,587
Shareholders' funds		76,697	67,377	81,278
Net asset value per share	6	461.1p	386.2p	471.6p

Consolidated Statement of Changes in Equity (unaudited)

for the six months ended 30 September 2012

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2012	8,724	5,178	2,212	62,577	2,587	81,278
Total comprehensive income	–	–	–	(2,723)	1,147	(1,576)
Shares repurchased	–	–	–	(2,381)	–	(2,381)
Dividends paid	–	–	–	–	(624)	(624)
Balance at 30 September 2012	8,724	5,178	2,212	57,473	3,110	76,697

for the six months ended 30 September 2011

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2011	8,724	3,935	2,212	71,736	2,230	88,837
Total comprehensive income	–	–	–	(26,070)	1,044	(25,026)
Issue of shares from treasury	–	–	–	4,022	–	4,022
Dividends paid	–	–	–	–	(456)	(456)
Balance at 30 September 2011	8,724	3,935	2,212	49,688	2,818	67,377

for the year ended 31 March 2012 (Audited)

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2011	8,724	3,935	2,212	71,736	2,230	88,837
Total comprehensive income	–	–	–	(11,193)	1,118	(10,075)
Shares repurchased	–	–	–	(744)	–	(744)
Shares issued from treasury	–	1,243	–	2,778	–	4,021
Dividends paid	–	–	–	–	(761)	(761)
Balance at 31 March 2012	8,724	5,178	2,212	62,577	2,587	81,278

Condensed Group Statement of Cash Flows (unaudited)

for the six months ended 30 September 2012

	Six months to 30 September 2012 £'000	Six months to 30 September 2011 £'000	Year to 31 March 2012 (Audited) £'000
Net cash outflow from operating activities	(737)	(11,913)	(4,279)
Cash flows from financing activities	(3,281)	5,559	4,238
	(4,018)	(6,354)	(41)
Exchange differences	(478)	(135)	(444)
Decrease in cash and cash equivalents	(4,496)	(6,489)	(485)
Reconciliation of loss before finance costs and tax to net cash outflow from operating activities			
Loss before finance costs and tax	(1,183)	(24,501)	(9,295)
Losses on investments held at fair value	2,451	25,945	10,737
Exchange differences	(74)	(261)	(310)
Withholding tax	(285)	(296)	(341)
Purchases of investments	(17,988)	(20,264)	(29,850)
Sales of investments	16,141	8,045	25,599
Changes in working capital and other non-cash items	201	(581)	(819)
Net cash outflow from operating activities	(737)	(11,913)	(4,279)

Statement of Principal Risks and Uncertainties

The principal risk faced by the Company is that it fails to produce the capital appreciation stated as its objective, and its net asset value does not rise over the longer-term. The risks which might give rise to this event can be categorised as external, manager, investment and strategy, portfolio liquidity, gearing, regulatory, operational, financial, banking and reputational. In addition, shareholders face the risks of liquidity of the Company's shares and discount volatility.

These risks, and the way in which they are mitigated, are described in more detail under the heading Principal Risks and Risk Mitigation in the Report of the Directors in the Company's Annual Report for the year ended 31 March 2012. The Company's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Company's financial year.

Directors' Responsibility Statement

in respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' and give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Chairman's Statement (constituting the Interim Management Report) includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the condensed set of financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board,

A R IRVINE

Director

21 November 2012

Notes to the Accounts

- The unaudited interim financial statements have been prepared on the basis of the accounting policies set out in the statutory financial statements of the Group for the year ended 31 March 2012 and in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting'.
- Earnings for the first six months should not be taken as a guide to the results for the full year.
- Management Expenses

	Six months to 30 September 2012			Six months to 30 September 2011			Year ended 31 March 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management									
fee – basic	111	206	317	128	237	365	241	447	688
	111	206	317	128	237	365	241	447	688

- Earnings per Ordinary Share is based on a weighted average of 16,739,337 Ordinary Shares in issue during the period (year ended 31 March 2012: 17,140,801; six months ended 30 September 2011: 16,943,452), excluding those shares brought back and held in treasury.
- The interim dividend of 1.75p per Ordinary Share will be paid on 11 January 2013 to shareholders on the register on 14 December 2012.
- The net asset value per Ordinary Share is based on 16,633,260 Ordinary Shares in issue at the end of the period (31 March 2012: 17,233,260; 30 September 2011: 17,448,260), excluding those shares bought back and held in treasury. As at 30 September 2012 there were 815,000 shares held in treasury (31 March 2012: 215,000; 30 September 2011: nil). 600,000 shares were bought back during the period at a cost of £2.4 million.
- Rates of exchange

	30 September 2012	31 March 2012
Danish Krone	9.36	8.93
Euro	1.26	1.20
Norwegian Krone	9.24	9.11
Swedish Krona	10.59	10.60
Swiss Franc	1.52	1.44

- The Group results consolidate those of MESCT Securities Limited, a wholly owned non-trading subsidiary.
- These are not statutory accounts in terms of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the Company's auditors. The information for the year ended 31 March 2012 has been extracted from the latest published financial statements which received an unqualified audit report and have been filed with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2012 have been reported on by the Company's Auditors or delivered to the Registrar of Companies.

Shareholder Information

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from Equiniti Limited on request at the address shown on page 12.

Change of Address

Communications with shareholders are mailed to the address shown on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited at the address shown on page 12 under the signature of the registered holder.

Frequency of Net Asset Value ('NAV') Publication

The Company's NAV is released to the London Stock Exchange on a daily basis.

ISA Status

The Company's shares are fully eligible for inclusion in ISAs.

AIC

The Company is a member of the Association of Investment Companies ('AIC').

Share Savings Scheme

UK residents can invest in the Company's shares through savings plans which are administered by Alliance Trust Savings Limited ('ATS'). ATS provides and administers a range of self-select investment plans, including tax-advantaged ISAs and SIPPs, and First Steps, an investment plan for children. More information can be obtained by contacting ATS on 08000 326 323 or visiting www.alliancetrust.co.uk.

Sources of Further Information

The Company's share price is listed in the Financial Times under Investment Companies, and in other newspapers. Information on the Company is also available on the Manager's website: www.montanaro.co.uk.

Warning to Shareholders – Boiler Room Scams

In recent years, many companies have become aware that their shareholders have been targeted by unauthorised overseas-based brokers selling what turn out to be non-existent or high risk shares, or expressing a wish to buy their shares. If you receive unsolicited investment advice or requests:

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

Directors and Advisers

Directors

A R Irvine (Chairman)
R B M Graham
R A Hammond-Chambers
R M Martin
M R Somerset Webb

Manager

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Montanaro European Smaller Companies Trust plc

Registered in Scotland No. SC074677

An investment company as defined under
Section 833 of the Companies Act 2006.

*Calls to this number cost 8p per minute from a BT landline.
Other providers' costs may vary. Lines are open 8.30am
to 5.30pm, Monday to Friday.

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