

MONTANARO

European Smaller Companies Trust plc

Interim Report 2013



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 main market of the London Stock Exchange.

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Cover Images:

Far Left: Berlin Cathedral, Germany

Top Right: Gamla Stan, Stockholm, Sweden

Bottom Right: Utheran Cathedral, Helsinki, Finland

Highlights

for the six months ended 30 September 2013

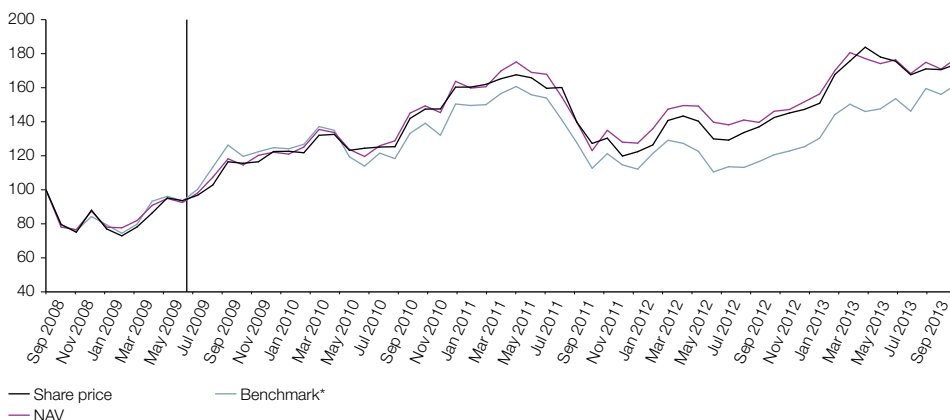
Results

- > Share price -5.4%
- > Net asset value ("NAV") per Ordinary Share unchanged
- > Benchmark index +10.9%
- > Total assets -0.3% (£105.6 million)

	As at 30 September 2013	As at 31 March 2013
Net assets ('000s)	£93,013	£93,009
NAV per Ordinary Share	559.2p	559.2p
Ordinary Share Price	491.0p	519.3p
Discount	12.2%	7.1%
Gearing*	6.3%	1.5%

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

NAV, Share Price and Benchmark Index* 5 year performance graph



* From 5 September 2006: MSCI Europe SmallCap Index. The benchmark was changed on 1 June 2009 to the MSCI Europe SmallCap (ex UK) Index in sterling terms.

Chairman's Statement

During the six month period ended 30 September 2013, the Company's net asset value ("NAV") was unchanged at 559.2p per share. This compares to an increase of 10.9% in the benchmark index, the MSCI Europe Small Cap (ex UK) Index. The share price fell by 5.4% to 491.0p. This represents a discount of 12.2% at the end of the period.

Equity markets performed well during the six month period. Economic news has been positive in the US and Europe and central banks have continued to adopt an accommodative stance. Investors have reappraised European equity risk and the region has now become a consensus "Buy" amongst strategists. As often happens when investor confidence returns, the best performing stocks have been those at the cheaper, lower quality and more cyclical end of the market. This has been exemplified by the marked outperformance of the consumer sector, which offers relatively few high quality businesses with sustainable competitive advantages. The Company's underweight exposure to this part of the market was partly responsible for the underperformance versus the benchmark.

Such periods of marked underperformance by the Company are rare, but they are a natural by-product of the long term "buy and hold" investment strategy focused exclusively on high quality businesses. Whilst the Company's short term performance is disappointing, its longer term performance record remains good. Since the appointment of Montanaro Asset Management Limited as Investment Manager in September 2006, the NAV per share has risen by 62.4% compared with an increase of 33.4% in the benchmark index.

Earnings and Dividends

Revenue earnings per share for the period were 7.5p (2012: 6.9p). The Board has declared an unchanged interim dividend of 1.75p per Ordinary Share, payable on 10 January 2014 to shareholders on the register on 13 December 2013.

Borrowings

At the end of the period, the Company had borrowings (net of cash) of 6.3% of the net asset value, which compares to 1.5% as at 31 March 2013. During the period, the Company's €15 million revolving credit facility matured. This has been replaced with a five year fixed rate secured loan of the same amount and with broadly similar covenants.

Outlook

The Company invests in European smaller companies which have strong management teams, sound balance sheets and good business franchises, and which the Manager believes offer the potential for good long term returns. The Board believes that shareholders will continue to benefit from Montanaro's extensive and experienced research capabilities within the European smaller companies sector.

The combination of an improving economic outlook and an extended low interest rate environment is likely to be supportive for stock markets. European markets should also benefit from the shift in investor sentiment towards the region. Following the strong performance of value stocks in recent months, the Manager expects there will be a style rotation in favour of quality growth companies – of the kind owned by the Company.

A R IRVINE

Chairman

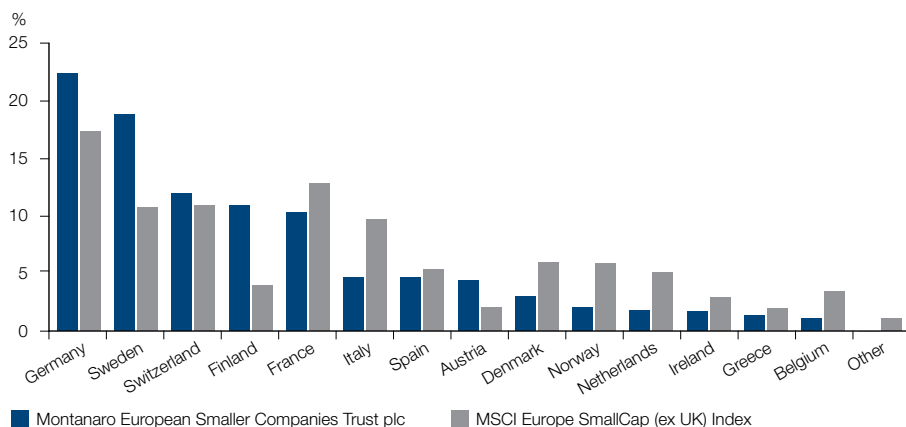
20 November 2013

Portfolio Summary

Twenty Largest Holdings
as at 30 September 2013

Holding	Country	Sector	Value £'000	% of portfolio
Vacon	Finland	Electronic & electrical equipment	3,709	3.8%
Lem Holding	Switzerland	Electronic & electrical equipment	3,317	3.3%
AF Group	Sweden	Industrial engineering	3,223	3.3%
Belimo Holdings	Switzerland	Building products	3,174	3.2%
Virbac	France	Pharmaceuticals	2,993	3.0%
Christian Hansen	Denmark	Chemicals	2,950	3.0%
Axis Communications	Sweden	Technology hardware & equipment	2,676	2.7%
Nokian Renkaat	Finland	Automobiles & components	2,667	2.7%
Schoeller Bleckmann	Austria	Energy equipment & services	2,651	2.7%
Viscofan	Spain	Food, beverages & tobacco	2,649	2.7%
JM	Sweden	Consumer durables & apparel	2,600	2.6%
VZ Holding	Switzerland	Financial services	2,568	2.6%
Sartorius	Germany	Healthcare equipment & services	2,529	2.6%
Fuchs Petrolub	Germany	Chemicals	2,526	2.6%
Avanza	Sweden	Financial services	2,468	2.5%
Pfeiffer Vacuum Technology	Germany	Industrial engineering	2,371	2.4%
CTS Eventim	Germany	Media	2,300	2.3%
Enquest	Sweden	Oil & gas	2,206	2.2%
GfK	Germany	Media	2,144	2.2%
TGS Nopec Geophysical	Norway	Energy equipment & services	2,124	2.1%
Twenty Largest Holdings			53,845	54.5%

Geographical Analysis vs Index as at 30 September 2013



Consolidated Statement of Comprehensive Income (unaudited)

for the six months ended 30 September 2013

Notes	Six months to 30 September 2013			Six months to 30 September 2012			Year to 31 March 2013 (Audited)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Capital gains/(losses) on investments									
(Losses)/gains on investments									
held at fair value	-	(141)	(141)	-	(2,451)	(2,451)	-	14,760	14,760
Exchange gains/(losses)	-	118	118	-	74	74	-	(261)	(261)
	-	(23)	(23)	-	(2,377)	(2,377)	-	14,499	14,499
Revenue									
Investment income	1,863	-	1,863	1,754	-	1,754	2,376	-	2,376
Other operating income	-	-	-	6	-	6	7	-	7
Total income	1,863	(23)	1,840	1,760	(2,377)	(617)	2,383	14,499	16,882
Expenditure									
Management expenses	3 (142)	(264)	(406)	(111)	(206)	(317)	(245)	(502)	(747)
Other expenses	(234)	-	(234)	(249)	-	(249)	(502)	-	(502)
Total expenditure	(376)	(264)	(640)	(360)	(206)	(566)	(747)	(502)	(1,249)
Profit/(loss) before finance costs and tax	1,487	(287)	1,200	1,400	(2,583)	(1,183)	1,636	13,997	15,633
Finance costs	(65)	(120)	(185)	(76)	(140)	(216)	(139)	(258)	(397)
Profit/(loss) before tax	1,422	(407)	1,015	1,324	(2,723)	(1,399)	1,497	13,739	15,236
Tax	(179)	-	(179)	(177)	-	(177)	(211)	-	(211)
Total comprehensive income	1,243	(407)	836	1,147	(2,723)	(1,576)	1,286	13,739	15,025
Return per share	4 7.5p	(2.5)p	5.0p	6.9p	(16.3)p	(9.4)p	7.7p	82.3p	90.0p

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 2013

	Notes	As at 30 September 2013 £'000	As at 30 September 2012 £'000	As at 31 March 2013 (Audited) £'000
Non-current assets				
Investments held at fair value through profit and loss		98,834	81,945	94,360
Current assets				
Trade and other receivables		168	117	433
Cash and cash equivalents		6,647	6,805	11,191
		6,815	6,922	11,624
Total assets		105,649	88,867	105,984
Current liabilities				
Trade and other payables		(205)	(12,170)	(12,975)
Total assets less current liabilities		105,444	76,697	93,009
Creditors: amounts falling due after more than one year		(12,431)	–	–
Net assets		93,013	76,697	93,009
Capital and reserves				
Called-up share capital		8,724	8,724	8,724
Share premium account		5,178	5,178	5,178
Capital redemption reserve		2,212	2,212	2,212
Capital reserve		73,530	57,473	73,937
Revenue reserve		3,369	3,110	2,958
Shareholders' funds		93,013	76,697	93,009
Net asset value per share	6	559.2p	461.1p	559.2p

Consolidated Statement of Changes in Equity (unaudited)

for the six months ended 30 September 2013

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2013	8,724	5,178	2,212	73,937	2,958	93,009
Total comprehensive income	–	–	–	(407)	1,243	836
Dividends paid	–	–	–	–	(832)	(832)
Balance at 30 September 2013	8,724	5,178	2,212	73,530	3,369	93,013

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 year ended 31 March 2013 (Audited)

	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	–	–	–	13,739	1,286	15,025
Shares repurchased	–	–	–	(2,379)	–	(2,379)
Dividends paid	–	–	–	–	(915)	(915)
Balance at 31 March 2013	8,724	5,178	2,212	73,937	2,958	93,009

Condensed Group Statement of Cash Flows (unaudited)

for the six months ended 30 September 2013

	Six months to 30 September 2013 £'000	Six months to 30 September 2012 £'000	Year to 31 March 2013 (Audited) £'000
Net cash (outflow)/inflow from operating activities	(3,382)	(737)	3,719
Cash flows from financing activities	(1,134)	(3,281)	(3,751)
Exchange differences	(4,516)	(4,018)	(32)
Decrease in cash and cash equivalents	(28)	(478)	(78)
Decrease in cash and cash equivalents	(4,544)	(4,496)	(110)
Reconciliation of profit/(loss) before finance costs and tax to net cash (outflow)/inflow from operating activities			
Profit/(loss) before finance costs and tax	1,200	(1,183)	15,633
Losses/(gains) on investments held at fair value	141	2,451	(14,760)
Exchange differences	(118)	(74)	261
Withholding tax	(213)	(285)	(294)
Purchases of investments	(14,020)	(17,988)	(24,768)
Sales of investments	9,405	16,141	27,670
Changes in working capital and other non-cash items	223	201	(23)
Net cash (outflow)/inflow from operating activities	(3,382)	(737)	3,719

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 and banking. 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 2013. 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 profit 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

20 November 2013

Notes to the Accounts

- The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting' and, except as described below, the accounting policies set out in the statutory accounts of the Group for the year ended 31 March 2013. The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2013, which were prepared under full IFRS requirements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013. The following changes in accounting standards are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 March 2014:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 'Presentation of Financial Statements'). The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income in its Consolidated Statement of Comprehensive Income. Items that could be reclassified to profit or loss at a future point in time are now required to be presented separately from items that will never be reclassified. The amendment has no impact on the recognised assets, liabilities and comprehensive income of the Group.
 - IFRS 13 'Fair Value Measurement' (2011). IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. In particular, it unifies the definition of fair value as the price at which an ordinary transaction to sell an asset or to transfer a liability would take place between investor participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard (see note 8). The change has no significant impact on the measurement of the Group's assets and liabilities.
- 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 2013			Six months to 30 September 2012			Year ended 31 March 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management									
fee – basic	142	264	406	111	206	317	245	455	700
– performance	–	–	–	–	–	–	–	47	47
	142	264	406	111	206	317	245	502	747

4. Earnings per Ordinary Share is based on a weighted average of 16,633,260 Ordinary Shares in issue during the period (year ended 31 March 2013: 16,687,607 and six months ended 30 September 2012: 16,739,337), excluding those shares brought back and held in treasury.
5. The interim dividend of 1.75p per Ordinary Share will be paid on 10 January 2014 to shareholders on the register on 13 December 2013.
6. 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 2013: and 30 September 2012: the same), excluding those shares bought back and held in treasury. As at 30 September 2013 there were 815,000 shares held in treasury (31 March 2013: and 30 September 2012: the same).
7. The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being that of investing in European quoted smaller companies, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the change in the Group's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.
8. The Group held the following categories of financial instruments as at 30 September 2013:

	Level 1 £'000
Investments	98,834

The above table provides an analysis of investments based on the fair value hierarchy described below and which reflects the reliability and significance of the information used to measure their fair value. The levels are determined by the lowest (that is the least reliable or least independently observable) level of impact that is significant to the fair value measurement for the individual investment in its entirety as follows:

Level 1 reflects financial instruments quoted in an active market.

Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data.

There were no transfers of investments between levels during the period ended 30 September 2013.

Notes to the Accounts (continued)

The following table summarises the Group's Level 1 investments that were accounted for at fair value in the period to 30 September 2013:

	Group (Level 1) £'000
Opening book cost	68,368
Opening fair value adjustment	25,992
Opening valuation	94,360
Movement in the year:	
Purchases at cost	14,020
Sales – proceeds	(9,405)
– gains on sales	1,529
Decrease in fair value adjustment	(1,670)
Closing valuation at 30 September 2013	98,834
Closing book cost	74,512
Closing fair value adjustment	24,322
Closing valuation at 30 September 2013	98,834

Other aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 March 2013. The fair value of the Group's financial assets and liabilities as at 30 September 2013 was not materially different from their carrying values in the financial statements.

9. Rates of exchange (to sterling):

	30 September 2013	31 March 2013
Danish Krone	8.92	8.82
Euro	1.20	1.18
Norwegian Krone	9.74	8.86
Swedish Krona	10.40	9.87
Swiss Franc	1.46	1.44

10. The Group results consolidate those of MESCT Securities Limited, a wholly owned dormant subsidiary.

11. 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 auditor. The information for the year ended 31 March 2013 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 2013 have been reported on by the Company's Auditor 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 14.

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 14 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 **01382 573 737** or visiting **www.alliancetrustsavings.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 – Beware of Share Fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you are approached by fraudsters please tell the Financial Conduct Authority ('FCA') by using the share fraud reporting form at **www.fca.org.uk/scams** where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **0800 111 6768**. If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

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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Company Secretary, Administrator and Registered Office

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Registrar

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Registrars' Broker Helpline

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London SE1 2AF

Solicitors

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Edinburgh EH2 4DF

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.

Notes

Notes



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