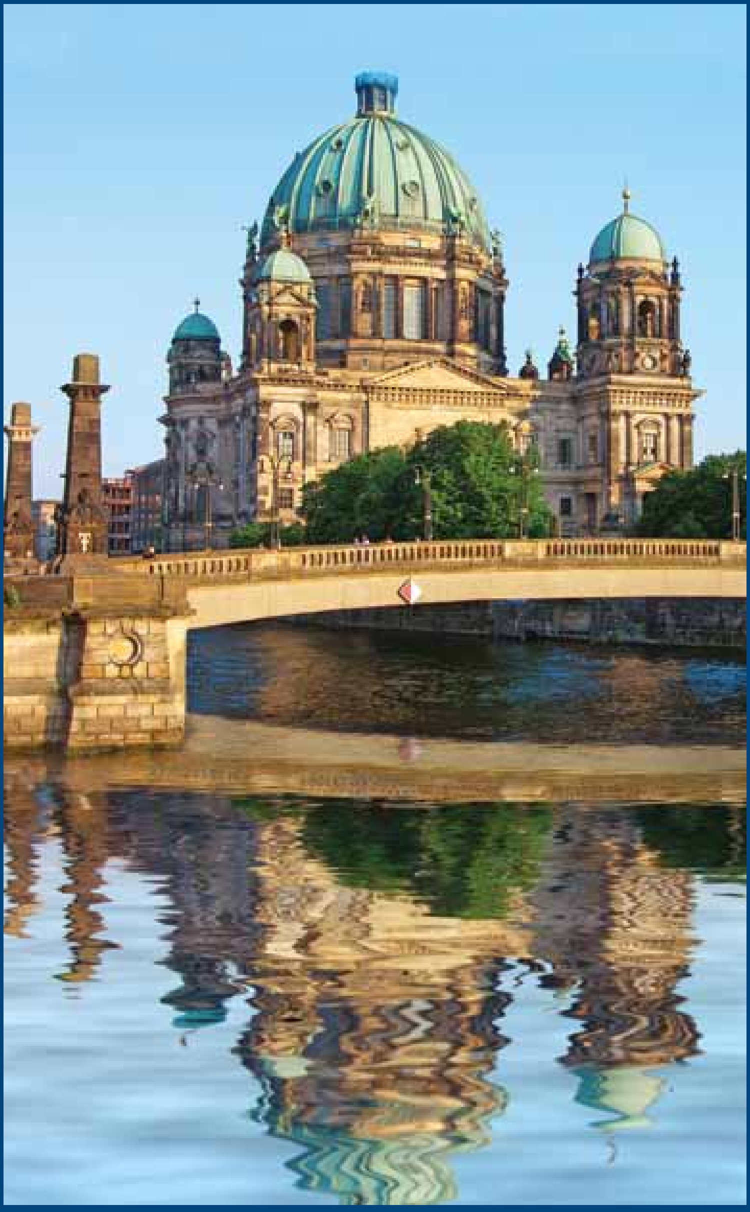
MONTANARO

European Smaller Companies Trust plc

Annual Report and Accounts 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 London Stock Exchange.

This document is important and refers to certain matters on which voting action is required. Shareholders who are in any doubt as to what action to take should consult an appropriate independent adviser immediately.

If any shareholder has sold or transferred all their shares in the Company, he or she should pass this document to the purchaser or transferee or to the person through whom the transfer or sale was effected for onward transmission to the transferee or purchaser.

Cover Images:
Far Left: Berlin Cathedral, Germany
Top Right: Gamla Stan, Stockholm, Sweden
Bottom Right: Utheran Cathedral, Helsinki, Finland

Highlights
for the year ended 31 March 2013

Results

> Net asset value ('NAV') per Ordinary Share +18.6%

> Share price +28.2%

> Benchmark index (capital return) +14.7%

> Total assets +12.8% (£106.0 million)

	As at 31 March 2013	As at 31 March 2012
Net assets ('000s)	**£93,009**	£81,278
NAV per Ordinary Share	**559.2p**	471.6p
Ordinary Share price	**519.3p**	405.0p
Discount	**7.1%**	14.1%
Dividends per Ordinary Share	**6.75p**	5.50p
Gearing*	**1.5%**	1.5%

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

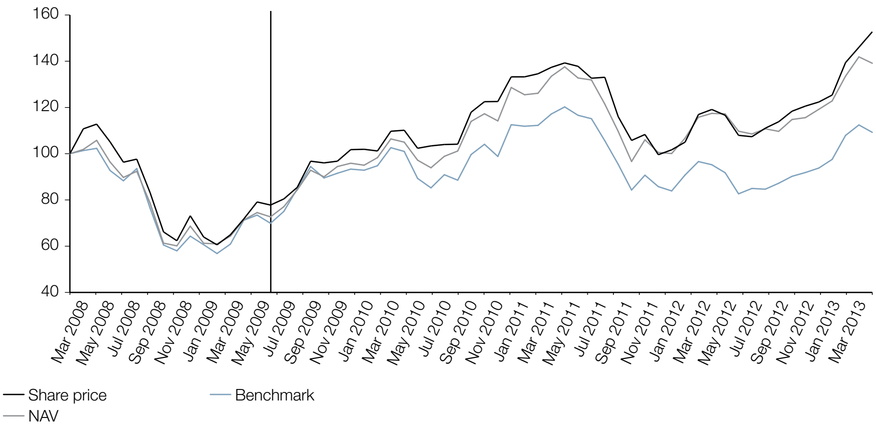
Historic Record

	Net assets £'000s	NAV per share	Ordinary Share price	Discount	Dividends per share
5 September 2006*	60,022	344.0p	322.0p	6.4%	n/a
31 March 2007	74,447	426.7p	404.0p	5.3%	4.00p
31 March 2008	69,061	401.6p	340.0p	15.3%	4.00p
31 March 2009	42,653	257.4p	220.8p	14.2%	7.33p**
31 March 2010	71,059	428.8p	373.0p	13.0%	4.50p
31 March 2011	88,837	536.0p	467.0p	12.9%	4.50p
31 March 2012	81,278	471.6p	405.0p	14.1%	5.50p
31 March 2013	93,009	559.2p	519.3p	7.1%	6.75p

* Date of commencement of current management arrangements.

** Includes special dividends of 2.83p per share.

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

Highlights 2013

- The NAV increased by 18.6%, compared with an increase of 14.7% in the benchmark index
- The share price increased by 28.2%

During the year ended 31 March 2013, the Company's net asset value ('NAV) per share increased by 18.6% to 559.2p. This compares with an increase of 14.7% in the benchmark index, the MSCI Europe SmallCap (ex UK) Index. The share price increased by 28.2% during the year, to 519.3p, representing a discount to the NAV per share of 7.1%, compared to 14.1% at the start of the year.

The start of the year was marked by concerns over economic conditions in Europe and the future of the Eurozone. These faded as repeated proclamations from the European Central Bank worked to demonstrate its commitment to the Euro. As sentiment improved, institutional investors who had previously been underweight in Europe increased their exposure to the region. Investor confidence was also boosted by improved macro-economic data.

In contrast to last year, the Euro and other European currencies strengthened against sterling. An estimated 15p of the increase in the NAV per share during the year is attributable to currency strength within the portfolio.

Within the portfolio, most of the companies performed ahead of expectations and they remain in good financial health with strong balance sheets. The Investment Manager, Montanaro Asset Management ('Montanaro'), has consistently sought to invest in high quality, well managed smaller companies, and the success of this approach is reflected in the Company's long-term performance record.

The Company seeks to obtain long term capital growth and it is therefore pleasing to report that, since the appointment of Montanaro in September 2006, the NAV per share has increased by 62.6% compared with an increase of 20.3% in the benchmark index, with outperformance of the benchmark being obtained in five out of six complete financial years.

Earnings and Dividends

Reflecting good levels of dividend growth from many of the companies within the portfolio, revenue earnings per share for the year were 7.7p (2012: 6.5p). An interim dividend of 1.75p per share was paid on 11 January 2013 and the Board recommends the payment of a final dividend of 5.00p per share, payable on 26 July 2013 to shareholders on the register on 28 June 2013. This brings the total dividends for the year to 6.75p per share, an increase of 22.7% compared to the previous year.

Share Buy Backs and Treasury Shares

During the year we 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 year 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.

Borrowings

At the end of the year, the Company had borrowings (net of cash) of 1.5% of the net asset value. This is rather lower than usual reflecting the Investment Manager's near-term cautious outlook. Gearing was used actively during the year within ranges approved by the Board, and contributed an estimated 3p to the NAV per share.

We have a flexible €15 million revolving credit facility which enables gearing to be increased or decreased as considered appropriate. The facility matures in July 2013. It is the current intention of the Board to put in place a new facility of similar value at this time. The Board determines borrowing levels following recommendations from the Investment Manager and reviews this formally at each Board meeting.

Outlook

Although investor confidence in Europe has improved, economic conditions remain challenging. Many companies are, however, cautiously optimistic in their outlook, and have large cash balances. This, combined with their ability to raise new capital on attractive terms, means it is likely that merger and acquisition activity will increase in the year ahead.

We are invested in a diversified portfolio of European smaller companies with strong management teams, sound balance sheets and good business franchises. The portfolio benefits from Montanaro's extensive and experienced research within this large and often under researched area and from its risk control investment disciplines (outlined in the Manager's Report). We believe, therefore, that we have a relatively low risk European smaller companies portfolio offering excellent longer-term returns. Consequently, we look forward to the future with confidence.

A R IRVINE
Chairman
6 June 2013

Manager's Report

"2012/13 was a positive year for investors in European SmallCap with the MSCI Europe SmallCap (ex UK) Index rising by 14.7% in sterling terms. In comparison, the Company's NAV increased by 18.6%."

"The SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing."

"Montanaro is well positioned to benefit from a return of investor appetite for the highest quality European SmallCap."

The Attractions of Quoted Smaller Companies ('SmallCap')

The key attraction of investing in SmallCap is that, over the long term, investors have the opportunity to make more money than from investing in large companies ('LargeCap'). It is easier for small companies to grow fast than it is for large companies; hence they offer investors the potential for higher returns. If we take UK SmallCap as a proxy for Europe (because the data goes back much further), research shows that, since 1954, SmallCap equities have outperformed LargeCap by an average of 3.4% per annum. When compounded over the long term, this has made a very large difference to the returns earned – investors have received five times more. This is known as the 'SmallCap Effect'.

We believe that the SmallCap Effect is more marked in Continental Europe where markets can be even less efficient as a result of language, cultural and geographical barriers. Not only are there many more companies to choose from but there is often far less research available.

The SmallCap market gives investors access to global market-leading companies managed by dynamic entrepreneurs operating in attractive niche markets that are growing. However, due to a lack of broker research and the illiquidity of their shares, it takes a lot of time to get to know and understand these companies. This requires a level of in-house resources beyond the scope of most institutional investors. This is why many institutions are attracted to the asset class and equally why they often will outsource the day-to-day investment decisions to dedicated specialists such as Montanaro Asset Management Limited ('Montanaro').

A well-resourced investment manager doing its own detailed and thorough research can take advantage of the inefficiencies created by the lack of generally available research and thereby outperform the asset class. Thus investors can receive not only the benefits of the SmallCap Effect but also a further uplift to their returns through the added value that a dedicated investment manager can bring.

Montanaro

Montanaro was established in 1991. We have one of the largest and most experienced specialist teams in the UK dedicated exclusively to researching and investing in quoted European smaller companies. Our team of 28 investment professionals continues to grow as we invest further in our research capabilities. The team is multi-lingual and multi-national (with no less than eight nationalities). This ensures that we have the benefit of local contacts and knowledge that is so essential to detailed and thorough research.

At 31 March 2013, Montanaro's funds under management were over €2.4 billion. Our clients are mainly leading international financial institutions (insurance companies, pension funds, local authorities and fund of fund managers). In 2000, we launched our first European fund, the open-ended Montanaro European Smaller Companies plc. In September 2006, we were appointed to manage our first European closed-end investment trust, Montanaro European Smaller Companies Trust plc. In March 2009 the Fonds de Réserve pour les Retraites ('FRR', the French national pension reserve system) appointed Montanaro to manage a substantial portfolio investing in European Smaller Companies.

Investment Philosophy and Approach

Montanaro specialises in quoted European smaller companies with a particular focus on those with a stock market value below €3 billion. As an independent quoted SmallCap specialist, we have the resources and skills to complete due diligence ourselves on companies we consider to be undervalued and attractive. Investment ideas typically are generated internally – rather than through brokers – and are researched in detail in-house. With around 4,000 companies currently within our universe, we are spoiled for choice. There is never a shortage of exciting new ideas. Before detailed research on an individual company, we gather and carefully review extensive trade and industry data to help us to understand the sector in which a company operates and its growth drivers.

Investments are focused on companies that are profitable and where there are sufficient shares in public hands to enable us to establish a holding. We are mindful of our 'circle of competence' – complicated, blue-sky companies are not for us. We focus on companies we can understand, typically niche franchises with good and experienced management, sound finances, simple business models, good order visibility, high barriers to entry, a strong, normally dominant market position and a competitive advantage that ensures pricing power. If there is a choice of more than one company in a specific sector, we would normally invest in the market leader. We prefer companies that can demonstrate self-funded organic growth rather than those on the acquisition treadmill.

We believe that you "get what you pay for in life" – it is worth paying more for a higher quality company. We like cash generative companies with high operating profit margins – an indicator that they are providing goods or services of value to their clients – which are better able to withstand a downturn. We carefully assess potential catalysts for share price performance such as positive news flow. We never lose sight of our primary goal which is to make money for shareholders through sound investment based on our own rigorous, fundamental analysis. We take a conservative approach. We also believe that it is right and proper to align our interests with those of our investors – we invest in our own funds and investment trusts.

To ensure that we remain well informed, we regularly visit the companies in which we invest. This is the fun part of the job and where we feel we can add the most value. We place great emphasis on management and seek to gain an understanding of their goals and aspirations by seeing them operate in their own environment. It is a privilege to meet them. The track record of executives is examined in detail along with board structure, the level of insider ownership and the emphasis paid by management on sound corporate governance. Good communication and regular dialogue with management are an important part of our investment process.

We believe that the major risk of investing in quoted European SmallCap is stock specific. Having Europe's largest specialist team, a high level of resources and a disciplined investment process means that we are well equipped to mitigate this company specific risk. In addition, we have put in place a number of risk controls aimed at limiting our exposure to a particular sector, country or company. For example, if a stock reaches a 4% weighting in the portfolio we will automatically reduce our exposure even if we believe the outlook is still positive – no company is immune to external shocks or unexpected surprises.

In summary, we invest in well managed, high quality companies in growth markets. We are long-term investors and keep turnover and transaction costs low. We follow the companies in which we invest very closely over many years, measured more in decades than the short-termism of others. We would rather pay more for a higher quality, more predictable company that can be valued with greater certainty.

Manager's Report continued

We are more interested in where an industry and a specific company will be in 5 – 10 years than its next set of figures. We are genuine long-term investors, seemingly an increasing rarity these days.

The Portfolio

The portfolio at 31 March 2013 consisted of 47 companies of which the top ten holdings represented 32.4%. Since our appointment in September 2006, the focus has been, and continues to be, on companies with a market capitalisation of less than €3 billion.

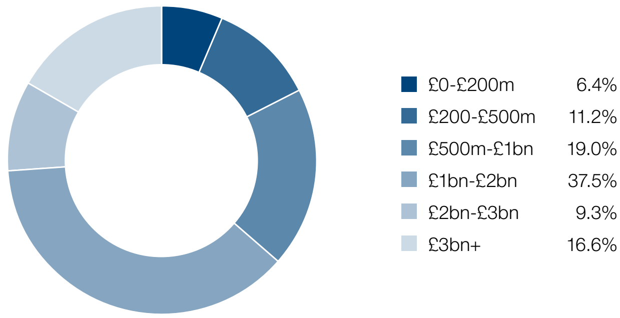
Sector distribution in the portfolio is driven by stock selection. Although weightings relative to the market are monitored, overweight and underweight positions are held based on where the greatest value is perceived to be.

Country distribution is also driven by stock selection and where the greatest value is perceived to be. The portfolio invests in Continental European companies excluding the United Kingdom.

The top three contributors during the year were Virbac, Fuchs Petrolub and Christian Hansen.

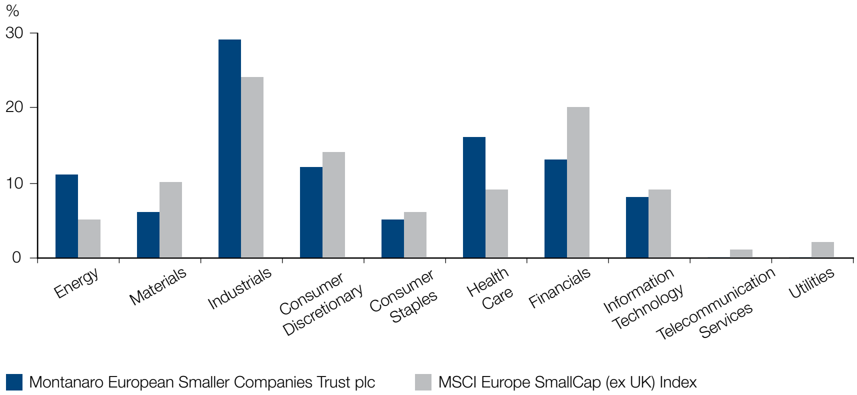
Virbac is an animal health company which develops pharmaceutical products for pets and livestock. A solid organic operating performance during the year was complemented by the acquisition of a majority stake in Centrovet, a major player in the field of trout and salmon vaccines. The IPO of Zoetis, a larger competitor, also focused investor attention on the qualities of the sector as a whole.

Market Capitalisation of Holdings by Value (31 March 2013)



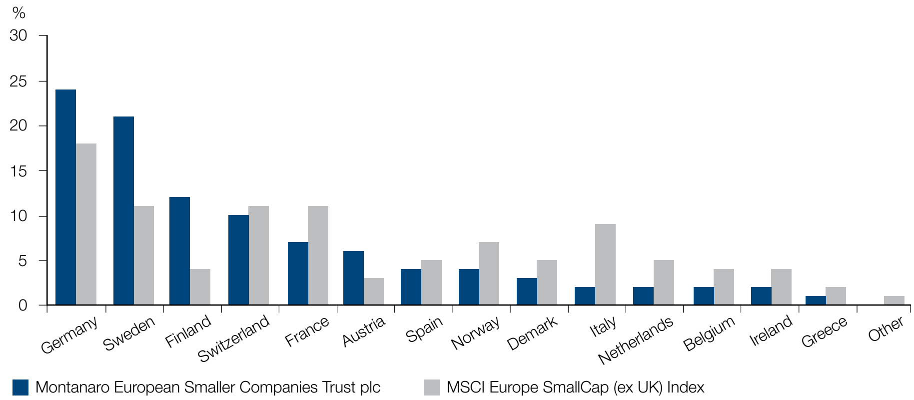
Source: Montanaro Asset Management Limited

Sector Distribution vs Index (31 March 2013)



Source: Montanaro Asset Management Limited

Geographical Analysis vs Index (31 March 2013)



Source: Montanaro Asset Management Limited

Fuchs Petrolub is the largest independent manufacturer of lubricants in the world, with a particular focus on high-value, specialist niches such as environmentally friendly and biodegradable lubricants and processing fluids. New business and price adjustments positively offset raw material cost increases, whilst the company continued to invest at record levels in anticipation of future growth.

Christian Hansen manufactures cultures and enzymes for the dairy industry as well as other health, nutrition and colouring ingredients. For those taking probiotic drinks such as Actimel, Christian Hansen makes the active ingredient. Better than expected results combined with an €80 million share buy back programme saw the stock become a top three contributor to the portfolio for the second year in a row.

Review

2012/13 was a positive year for investors in European SmallCap with the MSCI Europe SmallCap (ex UK) Index rising by 14.7% in sterling terms. In comparison, the Company's NAV increased by 18.6%.

Following a rally in the first few months of 2012, markets subsequently fell as macroeconomic indicators weakened and concerns about a possible Greek exit from the Eurozone resurfaced. By July, peripheral bond yields were climbing rapidly when the President of the ECB, Mario Draghi, made a statement which may one day be remembered for changing the course of history: "Within our mandate, the ECB is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough."

This bold proclamation signaled the start of a wave of policy measures both in Europe and elsewhere. Outright Monetary Transactions ('OMT') were seen as a put on European sovereign bonds, whilst QE3 in the US sent a clear message to investors about the commitment of the Federal Reserve. Those who were bearish on government bonds or equities faced the prospect of fighting not just the Fed, but a combination of Central Banks across the developed world.

As the tail risks previously associated with Europe became less significant, institutions assessing their allocations for 2013 started to question the wisdom of being underweight in an asset class which accounts for almost a quarter of the world's stock market value. Fund flow data showed a turnaround in sentiment toward the region as years of selling began to reverse.

As the Company's Investment Manager, we are always looking ahead, seeking to anticipate market sentiment and positioning the portfolio accordingly. The Board determines levels of gearing following recommendation from us. In 2012, we began the financial year with a low level of borrowing, at 1.5%, and a defensive bias to stock selection. However, as the stock market weakened we became more positive, adding to cyclical names and increasing net gearing to over 8% by October. These were contrarian positions that were subsequently vindicated. The recent strong recovery in the European stock market in 2013 has persuaded us to reduce borrowings and to lock in some profits. Gearing at the year end was 1.5%.

Outlook

As the financial year to 31 March 2013 drew to an end, European equities had enjoyed ten consecutive months of positive returns. In less than a year, extreme pessimism had been replaced by broad based optimism. All the ingredients are now in place for a recovery in M&A activity. Companies continue to sit on large cash balances which yield negative real return. Capital is cheap for sound borrowers and confidence is improving. We expect there to be increasing pressure to either invest or return some of this cash to investors.

In a pattern similar to the previous year, we have adopted a cautious stance as we enter the new financial year – stock markets simply do not go up in a straight line forever. We would thus not be surprised to see some profit-taking in the near future. However, the foundations of the long-term equity bull market are still intact.

Montanaro is well positioned to benefit from a return of investor appetite for the highest quality European SmallCap. We look forward to the coming year with confidence.

MONTANARO ASSET MANAGEMENT LIMITED
6 June 2013

Twenty Largest Holdings
as at 31 March 2013

1. Virbac
researches, develops and manufactures pharmaceuticals for pets and livestock. It is the 8th largest veterinary pharmaceutical company in the world and distributes its products in more than 100 countries.

2. Vacon
is the leading independent manufacturer of AC drives. Its products optimise process control and energy efficiency for electric motors and play a key role when energy is produced from renewable sources.

3. Christian Hansen
is a global supplier of bioscience based ingredients to the food, health and animal feed industries. Main products include cultures and dairy enzymes, probiotics and natural colourings.

4. LEM Holding
is a market leader in the electrical measurement industry. The company's core products are transducers for measuring parameters such as current and voltage, which are used in the industrial, traction, energy and automotive markets.

5. AF Group
is a leader in technical consulting, offering services and solutions for industrial processes, energy, infrastructure projects and IT product development.

6. Belimo Holdings
is engaged in the development and manufacture of electrical motorised control devices (actuators) for air and water that are predominantly used in large buildings with sophisticated Heating, Ventilation and Air Conditioning ('HVAC') systems.

7. GfK
is a market leader in the provision of market research for a variety of customers and sectors. The research provides critical insights into consumer behaviour and helps organisations to make better, more informed strategic and tactical decisions.

8. Outotec
is a leading global provider of process solutions, technologies and services for the mining and metallurgical industries.

9. Fuchs Petrolub
is the world's largest independent manufacturer of lubricants and sells into industrial, agricultural, pharmaceutical, mining and top-end automotive markets.

10. Rational
is the global market leader in the field of hot food preparation in professional kitchens, with a global market share of more than 54%.

11. Sartorius
develops and manufactures products and equipment used in the production of biologics, as well as premium laboratory instruments, consumables and services.

12. Enquest
is an independent oil and gas production and development company whose current activities are focused on the UK continental shelf.

13. Nokian Renkaat
is a quickly expanding niche market leader in winter tyres, specialising in Nordic and Russian markets.

14. Schoeller-Bleckmann
produces high precision collars and leases high performance drilling motors for the oilfield service industry. Its products are customised and primarily used in directional and horizontal drilling technology. It also offers full-scale repair and maintenance services to its customers.

15. Axis Communications
is the market leader in network video cameras and a driving force behind the shift from analog to digital video surveillance. It holds a number one position globally.

16. Elekta
is a global medical technology company, providing clinical solutions for the treatment of cancer and brain disorders. It has a 39% global market share in radiotherapy.

17. Avanza
is a Swedish online broker and pension provider. It offers its customers a platform to manage all of their savings under one umbrella.

18. Pfeiffer Vacuum
is a vacuum technology manufacturer, offering solutions for the generation, analysis and measurement of vacuum.

19. JM
is a market leading house builder in the Nordic region, with Stockholm in particular generating three quarters of operating profits.

20. Stratec Biomedical
designs and manufactures fully automated analyser systems for its partners in the fields of clinical diagnostics and biotechnology.

Holding	Country	**31 March 2013 Value £'000**	31 March 2012 Value £'000	% of portfolio	31 March 2013 Market cap £m
Virbac	France	**3,472**	2,682	3.7	1,291
Vacon	Finland	**3,364**	1,990	3.6	685
Christian Hansen	Denmark	**3,303**	2,588	3.5	3,288
LEM Holding	Switzerland	**3,134**	3,068	3.3	468
AF Group	Sweden	**3,120**	2,056	3.3	771
Belimo Holdings	Switzerland	**3,032**	2,410	3.2	931
GfK	Germany	**2,996**	2,667	3.2	1,246
Outotec	Finland	**2,779**	1,902	2.9	1,771
Fuchs Petrolub	Germany	**2,715**	2,258	2.9	3,731
Rational	Germany	**2,684**	2,923	2.8	2,232
Sartorius	Germany	**2,611**	n/a	2.8	1,319
Enquest	Sweden	**2,497**	2,133	2.7	1,153
Nokian Renkaat	Finland	**2,493**	2,578	2.6	3,900
Schoeller-Bleckmann	Austria	**2,400**	1,611	2.5	1,059
Axis Communications	Sweden	**2,364**	n/a	2.5	1,180
Elekta	Sweden	**2,352**	2,840	2.5	3,808
Avanza	Sweden	**2,344**	1,710	2.5	510
Pfeiffer Vacuum	Germany	**2,292**	2,121	2.4	723
JM	Sweden	**2,262**	2,018	2.4	1,286
Stratec Biomedical	Germany	**2,255**	n/a	2.4	346
Twenty Largest Holdings		**54,469**		**57.7**	

A full portfolio listing is available on request from the Manager.

Analysis of Investment Portfolio by Sector
as at 31 March 2013

Sector	% of portfolio	% of MSCI Europe SmallCap (ex UK) Index
Energy Equipment and Services	8.0	3.8
Oil, Gas and Consumable Fuels	2.6	1.6
Energy	**10.6**	**5.4**
Chemicals	6.4	4.5
Other	–	5.6
Materials	**6.4**	**10.1**
Building Products	3.2	1.5
Construction and Engineering	2.9	4.4
Electrical Equipment	3.6	1.4
Machinery	10.9	6.4
Commercial Services and Supplies	1.7	2.3
Professional Services	6.4	1.0
Other	–	6.8
Industrials	**28.7**	**23.8**
Auto Components	2.6	1.9
Household Durables	2.4	1.5
Leisure Equipment and Products	0.6	0.5
Media	5.2	4.2
Specialty Retail	1.4	1.4
Other	–	4.7
Consumer Discretionary	**12.2**	**14.2**
Food Products	5.1	3.9
Other	–	2.1
Consumer Staples	**5.1**	**6.0**
Health Care Equipment and Supplies	11.2	2.2
Health Care Technology	0.8	0.1
Pharmaceuticals	3.7	2.7
Other	–	3.6
Health Care	**15.7**	**8.6**
Diversified Financial Services	1.6	1.8
Capital Markets	4.9	2.5
Insurance	1.9	2.7
Real Estate Investment Trusts	1.5	2.3
Real Estate Management and Development	3.0	6.2
Other	–	5.0
Financials	**12.9**	**20.5**
Software	0.8	1.7
Communications Equipment	2.5	1.4
Electronic Equipment, Instruments and Components	5.1	1.0
Others	–	4.4
Information Technology	**8.4**	**8.5**
Telecommunications	**–**	**1.4**
Utilities	**–**	**1.5**
Total	**100.0**	**100.0**

Advisers

Manager
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Registrar's Shareholder Helpline
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Registrar's Broker Helpline
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* 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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Montanaro European Smaller Companies Trust plc
Registered in Scotland No. SC074677

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

Board of Directors

Andrew Irvine – Chairman

Andrew Irvine was appointed in 1992 and is Chairman of Jones Lang LaSalle (Scotland) Limited. He is also a director of Fidelity Special Values plc, BlackRock North American Income Trust plc, and Securities Trust of Scotland plc. He is Chairman of Celtic Rugby Limited, a former Chairman of The British and Irish Lions and a past President of Scottish Rugby Union plc. Mr Irvine is an experienced investment company director and has significant experience of a number of business sectors.

Bruce Graham

Bruce Graham, who is a Chartered Accountant, was appointed in 2003 and was previously a partner at PricewaterhouseCoopers. Since leaving PricewaterhouseCoopers he has provided forensic accounting services to third parties. He is Chairman of the Audit Committee. Through many years of experience Mr Graham has significant knowledge of accounting, financial and business matters.

Alex Hammond-Chambers

Alex Hammond-Chambers was appointed in 2004. He is Chairman of Hansa Trust plc. He is Chairman of the Nomination Committee. As a former fund manager, director of a number of investment companies, and past Chairman of the Association of Investment Companies, Mr Hammond-Chambers has significant experience of investment matters, both in the UK and internationally, and of the investment company sector.

Richard Martin

Richard Martin was appointed in 2006. He is an adviser to various family groups, Chairman of F&C Managed Portfolio Trust plc and a director of Aurora Investment Trust plc. As a fund manager and director of a number of investment companies Mr Martin has significant investment experience and knowledge of the investment company sector.

Merryn Somerset Webb

Merryn Somerset Webb was appointed in March 2011. She is the Editor-in-Chief of UK personal finance magazine MoneyWeek, writes for the Financial Times and is a radio and television commentator on financial matters. She is also a director of Baillie Gifford Shin Nippon plc. She is Chairman of the Remuneration Committee. Mrs Somerset Webb has significant experience of financial matters, both in the UK and internationally.

Report of the Directors

The Directors submit the Annual Report and Accounts of the Company and of the Group for the year ended 31 March 2013.

Results and Dividends

The results for the year are set out in the attached accounts.

An interim dividend of 1.75p per Ordinary Share was paid on 11 January 2013. The Board recommends a final dividend for the year of 5.00p per Ordinary Share payable on 26 July 2013 to shareholders on the register on 28 June 2013.

Principal Activity and Status

The Company is registered as a public limited company in Scotland (registered number SC074677) and is an investment company within the terms of Section 833 of the Companies Act 2006. Its shares are quoted on the main market of the London Stock Exchange.

The Company carries on business as an investment trust. It has been approved by HM Revenue and Customs as an investment trust for accounting periods commencing on or after 1 April 2012 subject to the Company continuing to meet the eligibility conditions of Section 1158 of the Corporation Tax Act 2010 and the ongoing requirements for approved companies in Chapter 3 of Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

The Company is required to comply with company law, the rules of the UK Listing Authority, the Admission and Disclosure Standards of London Stock Exchange, International Financial Reporting Standards as adopted by the European Union, and its Articles of Association (the 'Articles').

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

Capital Structure

The Company's capital structure is composed solely of Ordinary Shares. All shares rank equally for dividends and entitlement to capital, and at a general meeting of the Company every shareholder who is present in person or by proxy or by a corporate representative shall have one vote for all of the shares of which he is the holder on a show of hands, and one vote for each share on a poll.

Unless the Board otherwise decides, no member is entitled in respect of any share held by him to vote (either personally or by proxy or by a corporate representative) at any general meeting of the Company if any calls or other sums presently payable by him in respect of that share remain unpaid or if he is a person with a 0.25% interest (as defined in the Articles) and he has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under applicable statutes (in this report, referred to as the 'Companies Acts').

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution from time to time declare dividends in accordance with the respective rights of the members, but no dividend can exceed the amount recommended by the Board. Subject to the provisions of the Companies Acts, the Board may pay such interim dividends as appear to the Board to be justified by the financial position of the Company. The Board may deduct from any dividend or other moneys payable to a member by the Company on or in respect of any shares all sums of money (if any) payable by him to the Company on account of calls or otherwise in respect of shares of the Company. The Board may also withhold payment of all or any part of any dividends or other moneys payable in respect of the Company's shares from a person with a 0.25% interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Acts.

There are no restrictions on the transfer of shares of the Company, except that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws).

Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, gearing, corporate strategy, corporate governance and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 12.

Report of the Directors continued

Objective

The Company's objective is to achieve capital growth by investing principally in Continental European quoted smaller companies.

Investment Policy

The Company invests principally in quoted smaller companies within the European Union, Iceland, Norway and Switzerland (but is not restricted from investing in smaller companies quoted on other European stock exchanges). In addition, the Company may invest in:

- Companies listed on non-European stock exchanges that derive significant revenues or profits from Europe.
- European securities, such as global depositary receipts, listed on other international stock exchanges.
- Debt issued by European governments or denominated in European currencies.

The Company's investment policy is flexible, enabling it to invest in all types of securities of companies, including (but not limited to) equities, preference shares, debt, convertible securities, warrants and other equity-related securities. The Company may also invest, where appropriate, in open-ended collective investment schemes and closed-ended funds that invest in Europe.

It is not intended that the Company will acquire securities that are unquoted or unlisted at the time of investment (with the exception of securities which are about to be listed or traded on a stock exchange). However, the Company may continue to hold securities that cease to be quoted or listed if the Manager considers this to be appropriate.

Investment risk is spread through holding a range of securities in different countries and industrial sectors. Investments are not limited as to country or sector weightings, but no investment in the portfolio may exceed 10% of the Company's total assets at the time of investment. The Company may invest in derivatives, financial instruments, money market instruments and currencies solely for the purpose of efficient portfolio management (i.e. solely for the purpose of reducing, transferring or eliminating investment risk in the Company's investments, including any technique or instrument used to provide protection against currency and credit risks).

The Company borrows funds for investment to enhance returns over the long term and may borrow in sterling, euros or other currencies. The Board has set a maximum limit on gearing, net of cash, of 30% of shareholders' funds at the time of borrowing. The Company's portfolio will normally be fully invested. However, during periods in which changes in economic conditions or other factors so warrant, the Company may reduce its exposure to securities and increase its position in cash and money market instruments.

The Company will not invest more than 10%, in aggregate, of the value of its total assets at the time of investment in other investment trusts or investment companies admitted to the Official List of the UK Listing Authority.

Investment of Assets

At each Board Meeting, the Board receives a detailed presentation from the Manager together with a comprehensive analysis of the performance of the Company and compliance with investment restrictions during the reporting period. An analysis of how the portfolio was invested as at 31 March 2013 is contained on page 10 and the 20 largest holdings are shown on pages 8 and 9. Borrowings less net current assets as at 31 March 2013 were 1.5% of shareholders' funds.

Strategy

As part of its strategy, the Board has contractually delegated the management of the investment portfolio to Montanaro Asset Management Limited ('Montanaro'), which was appointed as Manager on 5 September 2006. Established in 1991, Montanaro is a highly experienced specialist investor in UK and Continental European quoted smaller companies. It has the largest team in the UK researching and investing exclusively in quoted European smaller companies and currently manages over €2.4 billion, mainly on behalf of leading financial institutions.

The Company's performance in pursuing its objective is measured against key performance indicators as set out on pages 16 and 17. A review of the Company's returns during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7.

Principal Risks and Risk Mitigation

The Board carefully considers the Company's principal risks and seeks to mitigate these risks through continued and regular review, policy setting, compliance with and enforcement of contractual obligations and active communication with the Manager, the Administrator and shareholders.

The Board applies the principles and recommendations of the UK Corporate Governance Code and the AIC's Code of Corporate Governance as described on pages 19 and 20. It also applies the principles detailed in the internal control guidance issued by the Financial Reporting Council. Details of the Company's internal controls are described in more detail on page 21.

The principal risk faced by the Company is that it fails to produce the capital appreciation stated as its objective, and the Company's net asset value ('NAV') does not rise over the longer term. The risks which might give rise to this event, together with other risks considered by the Board to be important to the Company and its shareholders, are summarised below. Mitigation of these risks is sought and achieved in many ways as described in italics.

External: events such as terrorism, disease, protectionism, inflation or deflation, changes in taxation, excessive stock market speculation, economic recessions, political instability and movements in interest rates and exchange rates could affect share prices in particular markets.

Portfolio diversification, both geographical and sectoral, can mitigate the consequences of such risky events. It is also possible to raise the level of cash, thereby reducing the risk of declining share prices and the effect of gearing on lower portfolio valuations. However, the portfolio's liquidity is not managed on the basis of market timing short-term fluctuations.

Manager: should the Manager not be in a position to continue to manage the Company, performance may be impacted.

Montanaro has the largest specialist Continental European smaller companies team in the UK. The Manager keeps the Board informed of developments within its business.

Investment and strategy: inappropriate strategy, including country and sector allocation, stock selection and the use of gearing could all lead to poor returns for shareholders.

At each Board Meeting the Manager discusses portfolio performance and strategy with the Directors and provides the Board and shareholders with monthly reports. The portfolio is well diversified with typically 40-60 holdings, thereby reducing stock-specific risk. The Board formally reviews the performance of the Manager and its terms of appointment annually.

Portfolio liquidity: as with all small company investment trusts, there are times when the liquidity of the underlying portfolio is poor, such as when smaller companies are out of favour or during periods of adverse economic conditions. The Manager focuses on smaller companies where the opportunities may be more attractive but this can decrease overall underlying liquidity. This may result in the Manager being unable to buy or sell individual holdings within the portfolio. In addition, illiquid stockmarkets may impact the discount of the Company's share price to the NAV per share.

One of the benefits of an investment trust is that the Manager is rarely forced to buy or sell individual holdings at inopportune times. The Manager constantly reviews the underlying liquidity of the portfolio, which is well diversified, and deals with a wide range of brokers to enhance its ability to execute and minimise liquidity risk.

Gearing: one of the benefits of an investment trust is its ability to use borrowings, which can enhance returns to shareholders in a rising stock market. However, gearing exacerbates movements in the NAV both positively and negatively and will exaggerate declines in NAV when share prices of investee companies are falling.

The Board is responsible for setting the gearing range within which the Manager may operate. It receives recommendations on gearing levels from the Manager, and monitors and discusses with the Manager the appropriate level of gearing at each Board Meeting.

Report of the Directors continued

Liquidity of the Company's shares: as with many small company investment trusts, there are times when the liquidity of the Company's shares is low. In the case of the Company, many of the shareholders are large financial institutions with a long-term investment horizon. Unlike other investment trusts, where private individuals form a larger part of the share register, this may result in fewer shares being traded in the Company on a daily basis and make it difficult at times for investors to buy or sell shares.

The Manager is encouraged by the Board to market the Company to private client wealth managers and other potential new investors. The goal is to widen the shareholder base to enhance liquidity. In addition, the ability to buy back shares to be held in treasury for subsequent re-issue may enhance the liquidity of the Company's shares.

Discount volatility: as with all small company investment trusts, discounts can fluctuate significantly both in absolute terms and relative to their peer group.

The Board and Manager actively monitor the discount of share price to NAV per share and seek to manage this through liaising closely with the Company's Broker, share buy backs and effective marketing. The Board has stated its commitment to an active discount management policy, such that it will consider a buy back of shares if the discount of share price to the NAV per share is greater than 10% for a sustained period of time. The Board encourages the Manager to market the Company to new investors to increase demand for the Company's shares, which may help to reduce the discount.

Regulatory: breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. Breach of Section 1158 of the Corporation Tax Act 2010 could lead to the Company being subject to tax on chargeable gains.

The Administrator monitors the Company's compliance with the Listing Rules of the UK Listing Authority and Section 1158 of the Corporation Tax Act 2010. Compliance with the principal rules is reviewed by the Directors at each Board Meeting.

Operational: failure of the Manager's or Administrator's systems, or those of other third party service providers could lead to an inability to provide accurate reporting and monitoring or a breach of Section 1158 of the Corporation Tax Act 2010.

The Board reviews operational issues in detail at each Board Meeting and the Audit Committee receives reports on the operation of internal controls, as explained in more detail within Internal Control on page 21.

Financial: inadequate controls by the Manager or Administrator or other third party service providers could lead to misappropriation of assets or a breach of Section 1158 of the Corporation Tax Act 2010. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations.

The Board reviews financial reports in detail at each Board Meeting.

Banking: a breach of the Company's loan covenants might lead to funding being summarily withdrawn.

The Administrator reviews compliance with the banking covenants on an ongoing basis and the Board reviews compliance at each Board Meeting.

Internal controls: inadequate or deficient controls of the Manager or Administrator or other third party providers might result in breaches of regulations and damage the trust and confidence of shareholders in the Company and lead to an increase in the discount.

The Board continually monitors and reviews issues that may impact the standing of the Company and lead to an increase in the discount.

Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in pursuing its objectives. The key performance indicators are as follows:

- Total return of the share price against that of a risk-free investment.
- Attribution of share price total return.
- NAV total return against the benchmark index.
- Discount of share price to NAV per share.
- Ongoing charges.

The share price total return for the year ended 31 March 2013 was 30.1% (source: Datastream), which compares to a return of 1.1% from a risk free investment (represented by a Moneyfacts average 90 day notice account). The estimated attribution of the share price total return for the year is as follows:

Change in NAV per share	18.6%
Dividends	1.2%
Narrowing of discount	10.3%
Share price total return	30.1%

The movement in the NAV per share and the benchmark index for the year ended 31 March 2013, and the movement in the discount during the year are referred to in the Highlights on page 1 and the Chairman's Statement on pages 2 and 3.

Ongoing charges for the year ended 31 March 2013 (see definition on page 47) were 1.5% (2012: 1.5%).

Subsidiary

The Company has a 100% holding in MESCT Securities Limited, a non-trading company. In the year to 31 March 2013, MESCT Securities Limited made a profit before and after taxation of £1 (2012: £2).

The Board does not expect the subsidiary to trade in the foreseeable future.

Directors

Mr J Lumsden retired as a Director on 19 July 2012.

The Directors who held office at the year end and their interests in the shares of the Company were:

		31 March 2013 Ordinary Shares	31 March 2012 Ordinary Shares
A R Irvine	Beneficial	**60,000**	60,000
R B M Graham	Beneficial	**34,600**	34,600
R A Hammond-Chambers	Beneficial	**12,500**	12,500
R M Martin	Beneficial	**11,000**	11,000
M R Somerset Webb	Beneficial	**1,909**	1,909

No Director has an interest in the share capital of the subsidiary. There have been no changes in the Directors' interests in the shares of the Company between 31 March 2013 and 6 June 2013.

No Director has a contract of service with the Company and no Director has any material interest in any contract to which the Company is a party.

Unless otherwise determined by ordinary resolution, the Company shall not have less than two or more than ten Directors (disregarding alternate directors). The Company or the Board may appoint any person to be a Director and a Director is not required to hold any shares of the Company. Any Director appointed by the Board shall hold office only until the next annual general meeting and shall then be eligible for election.

The Articles state that each Director must retire from office at the third annual general meeting after the annual general meeting at which he or she was last elected. However, the Board has agreed that all Directors will retire annually. Accordingly, all of the Directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. The Board confirms that, following formal performance evaluations, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the interests of shareholders that they are re-elected.

In addition to any power of removal conferred by the Companies Acts, the Company may by special resolution remove any Director before the expiration of his or her period of office. Furthermore, the office of a Director must be vacated if any of the circumstances set out in Article 98 of the Articles arise, for example if: (i) a Director resigns by notice in writing delivered to the registered office or tendered at a meeting of the Board; or (ii) by reason of a Director's mental health, a court makes an order which wholly or partly prevents that Director from personally exercising any powers or rights which that Director would otherwise have.

Report of the Directors continued

Directors' Indemnities

As at the date of this report, indemnities are in force between the Company and each of its Directors under which the Company has agreed to indemnify each Director, to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out his or her role as a Director of the Company. The Directors are also indemnified against the costs of defending any criminal or civil proceedings or any claim by the Company or a regulator as they are incurred provided that where the defence is unsuccessful the Director must repay those defence costs to the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006.

A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting.

Powers of the Directors

Subject to the provisions of the Companies Acts, the Articles and to any directions given by the Company in general meeting by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to issue shares or other securities and to borrow money and to mortgage or charge all or any part of the Company's assets.

Conflicts of Interest

Each Director has a statutory duty to avoid a situation where he or she has, or could have, a direct or indirect interest which conflicts, or may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles.

The Board has approved a protocol for identifying and dealing with conflicts and has resolved to conduct a regular review of actual or possible conflicts and any authorised conflicts. No conflicts or potential conflicts were identified during the year.

Substantial Interests in Share Capital

As at 31 March 2013, the Company had received notification of the following substantial holdings of voting rights (under the Financial Conduct Authority's (FCA), formerly the Financial Services Authority (FSA), Disclosure Rules and Transparency Rules):

	Number of shares held	Percentage held
Henderson Global Investors Ltd	2,320,000	13.9
East Riding of Yorkshire Council	1,775,000	10.7
Newton Investment Management Ltd	1,236,649	7.4
1607 Capital Partners LLC	883,000	5.3
Jupiter Asset Management Ltd	880,000	5.3
City of Bradford Metropolitan District Council	500,000	3.0

Since 31 March 2013, the Company has received the following notification of voting rights: Newton Investment Management Ltd, 737,177 Ordinary Shares (4.4 per cent). The Company has not received any other notifications of voting rights since the year end.

As at 6 June 2013, the Manager had an interest in 629,955 Ordinary Shares.

Management and Management Fees

Montanaro is entitled to receive a basic management fee of 1.0% per annum of the Company's market capitalisation (payable monthly in arrears). Montanaro is also entitled to receive an annual performance fee equal to 15% of the amount by which the increase in the NAV per share in any accounting period (adjusted for dividends paid or payable and the impact of accruing any performance fee) exceeds the total return on the Company's benchmark index plus 2.0 percentage points.

The payment of the performance fee is subject to a high watermark test and a cap of 2.0% of the Company's net assets at the end of the relevant accounting period. The performance fee is payable annually in arrears. 50% of any performance fee is payable in cash, with the balance being settled by the issue of new shares to Montanaro, although the Board may (in its absolute discretion) determine to pay the whole of the performance fee in cash in respect of any accounting period. Montanaro's appointment may be terminated by either party giving to the other not less than six months' notice. The investment management agreement may be terminated earlier by the Company provided that a payment in lieu of notice, equivalent to the amount the Manager would otherwise have received during the notice period, is made.

Since the year end, the Board has reviewed the appropriateness of the Manager's continuing engagement. In carrying out its review, the Board considered the skills, experience, resources and commitment of the Manager together with the investment performance during the year and since its appointment. It also considered the length of the notice period of the investment management agreement and the fees payable to the Manager. Following this review, it is the Directors' opinion that the continuing engagement of the Manager on the terms agreed is in the interests of shareholders as a whole.

Corporate Governance

Arrangements in respect of corporate governance, appropriate to an investment trust, have been made by the Board. The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance ('AIC Code') issued in October 2010 by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'), both of which can be found at www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010, which can be found at www.frc.org.uk, as well as setting out additional principles and recommendations on issues which are of specific relevance to investment trusts.

The Board considers that it is appropriate to report against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code).

Except as disclosed in the following paragraph, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of Section 1 of the UK Corporate Governance Code. Since all the Directors are non-executive, the provisions of the UK Corporate Governance Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the UK Corporate Governance Code relating to Directors' remuneration are not relevant except in so far as they relate specifically to non-executive Directors. For the reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the Board considers that these provisions are not relevant to the Company, being an externally managed investment trust. The Company has therefore not reported further in respect of these provisions.

Due to the size of the Board and the fact that all Directors are non-executive, the Directors do not consider it appropriate to appoint a Senior Independent Director as recommended by provision A.4.1 of the UK Corporate Governance Code.

The Board has considered the amendments to the UK Corporate Governance Code which apply to accounting periods beginning on or after 1 October 2012. It is the intention of the Board that, except for the matter disclosed above, the Company will comply fully with the amended code throughout the year ending 31 March 2014.

The Board consists solely of non-executive Directors. Mr A R Irvine is the Chairman. All Directors are considered by the Board to be independent of the Manager. New Directors receive an induction from the Manager and Company Secretary on joining the Board, and all Directors are made aware of appropriate training courses.

By the time of the Annual General Meeting on 25 July 2013, Messrs Irvine, Graham and Hammond-Chambers will have served on the Board for more than nine years. However, the Board subscribes to the view expressed within the AIC Code that long-serving Directors should not be prevented from forming part of an independent majority. It does not consider that a Director's tenure necessarily reduces his or her ability to act independently and, following a formal performance evaluation process, has determined that Messrs Irvine, Graham and Hammond-Chambers are independent in character and judgement and that there are no relationships or circumstances which are likely

	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
A R Irvine	4	4	3	3	1	1	1	1
R B M Graham	4	4	3	3	1	1	1	1
R A Hammond-Chambers	4	4	3	3	1	1	1	1
J Lumsden (retired 19 July 2012)	2	2	1	1	1	1	1	1
R M Martin	4	4	3	3	1	1	1	1
M R Somerset Webb	4	4	3	3	1	1	1	1

In addition to the above meetings, the Board met informally on a number of occasions during the year.

Report of the Directors continued

to affect their judgement. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed.

During the year the performance of the Board, committees and individual Directors was evaluated through an interview based process led by the Chairman. The performance of the Chairman was evaluated by the other Directors.

The table on page 19 sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2013 and the number of meetings attended by each Director.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate directors' and officers' liability insurance.

The basis on which the Company aims to generate value over the longer term is set out in its objective, investment policy and strategy as contained within the Business Review on page 14. A management agreement between the Company and the Manager sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, risk management and corporate governance procedures, are reserved for the approval of the Board of Directors.

The Board currently meets at least four times a year and, in addition, informally on a frequent basis. It receives full information on the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. Environmental, social and governance factors are, where appropriate, taken into account by the Manager as part of its investment analysis and decision-making processes. The Board notes the Manager's statement of compliance with the UK Stewardship Code issued by the Financial Reporting Council in July 2010, which can be found on its website at www.montanaro.co.uk.

Throughout the year a number of committees have been in operation, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. The full terms of reference for each committee are available on request from the Company.

Audit Committee

The Audit Committee, chaired by Mr R B M Graham who has recent and relevant financial experience, operates within clearly defined terms of reference and comprises the full Board. It meets at least twice yearly. The duties of the Audit Committee include: reviewing the annual and interim financial statements; the system of internal controls; and the terms of appointment of the Auditor in relation to audit and non-audit services together with their remuneration. It is also the forum through which the Auditor reports to the Board. The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the Auditor, with particular regard to non-audit fees. Such fees amounted to £8,000 for the year ended 31 March 2013 (2012: £7,000) and related to the provision of taxation services. It has been agreed that all non-audit work to be carried out by the Auditor must be approved in advance by the Audit Committee. Notwithstanding such services, the Audit Committee considers Ernst & Young LLP to be independent of the Company and the Group and that the provision of such non-audit services is not a threat to the objectivity and independence of the Auditor.

Remuneration Committee

The Remuneration Committee, chaired by Mrs M R Somerset Webb, comprises the full Board and reviews the appropriateness of the Manager's continuing appointment together with its terms and conditions thereof on a regular basis. The Remuneration Committee also determines the level of Directors' fees.

Nomination Committee

The Nomination Committee, chaired by Mr R A Hammond-Chambers, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, diversity, including gender, independence and knowledge of the Company within the Board.

Going Concern

In assessing going concern, the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Company, the availability of the revolving credit facility and compliance with its covenants, the Company's other liabilities and forecast revenues for the current financial year. The Directors have also taken into account the Company's investment policy, which is described on page 14 and which is subject to regular Board monitoring processes and is designed to ensure that the Company is invested mainly in liquid, listed securities. The Company retains title to all assets held by its custodian, and has agreements relating to its revolving credit facility with which it has complied during the year.

Notes 15 to 20 to the accounts set out the financial risk profile of the Company and indicate the effect on its assets and liabilities of falls and rises in the value of securities, market rates of interest and changes in exchange rates.

The Directors believe, in light of the controls and review processes noted above and bearing in mind the nature of the Company's business and assets and liabilities, the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms there is an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the internal control guidance issued by the Financial Reporting Council.

The key procedures which have been established to provide an effective internal control environment are as set out below:

- Investment management services are provided by Montanaro, which is regulated by the Financial Conduct Authority. At each Board Meeting the Board monitors the investment performance of the Company in comparison to its stated investment objective, the benchmark index and comparable investment trusts. The Board also reviews the Company's activities since the last Board Meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines. On an annual basis, Montanaro produces an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting accountants, for consideration by the Audit Committee.
- F&C Investment Business Limited ('FCIB') is responsible for the provision of company secretarial, accounting and administration services to the Company. On an annual basis, FCIB produces an AAF 01/06 Report on internal controls, which is reviewed by a firm of independent reporting accountants, for consideration by the Audit Committee.
- JPMorgan Chase Bank is responsible for the custody of the Company's investments. Lists of investments held are reconciled to the Company's records on a regular basis and a report on controls, which is reviewed by a firm of independent reporting accountants, is produced annually for consideration by the Audit Committee.
- The Board reviews contracts with other third party service providers, including the standard of services provided, on a regular basis.
- Board procedures are set within clearly defined parameters.
- At every Board meeting the Directors review financial information prepared by the Administrator, including management accounts and forecasts of income and expenditure.

A formal annual review of these procedures is carried out by the Audit Committee. The review meeting is attended by the Company's Auditor. A second meeting during the year receives updates on any material changes in the risk environment and the action taken.

These procedures have been in place throughout the year and up to the date of approval of the Annual Report and the Board is satisfied with their effectiveness. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Manager and the Administrator, including their internal audit functions, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Relations with Shareholders and Annual General Meeting

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Manager holds meetings with the Company's largest shareholders and reports back to the Board on these meetings. The Chairman and other Directors meet significant shareholders every year and are available to meet other shareholders if required. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and the Manager of the Company. The notice of the forthcoming Annual General Meeting, to be held on 25 July 2013, is set out on pages 48 to 53.

Report of the Directors continued

Directors' Authority to Allot Shares

The Company's Articles empower the Directors to allot unissued shares. In accordance with section 551 of the Companies Act 2006, such allotments must be authorised by shareholders in general meeting. Resolution 11 to be proposed at the forthcoming Annual General Meeting renews the Directors' authority, granted by shareholders at last year's Annual General Meeting, to allot new shares under section 551 of the Companies Act 2006. This authority will allow the Directors to allot shares up to an aggregate nominal amount of £831,663, representing an amount equal to approximately 10% of the Company's total issued ordinary share capital as at 6 June 2013 (being the latest practicable date before the publication of the Annual Report and Accounts) excluding shares held in treasury. This authority will expire at the conclusion of the Company's next Annual General Meeting, to be held in 2014 or, if earlier, on 30 September 2014.

Directors' Authority to Allot Shares other than on a Pre-emptive Basis

Resolution 12 to be proposed at the Annual General Meeting grants the Directors authority to allot new shares for cash and to dispose of treasury shares, up to an aggregate nominal amount of £831,663, representing an amount equal to approximately 10% of the Company's issued ordinary share capital as at 6 June 2013, without having to first offer such shares to existing shareholders pro rata to their existing holdings. The authority also allows the Directors to take such steps as they consider necessary in relation to the treatment of overseas shareholders, treasury shares and fractional entitlements on pre-emptive share issues. This authority will expire at the conclusion of the Company's next Annual General Meeting to be held in 2014 or, if earlier, on 30 September 2014 and will enable the Company to issue new shares and to dispose of treasury shares at any price for cash, including where shares are being issued from treasury at a price representing a discount to the NAV per share at the time of issue.

The Directors will only allot new shares pursuant to the authorities proposed to be conferred by Resolutions 11 and 12 if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would result in an overall dilution of NAV per share. The Board's policy regarding the issue of shares from treasury is described below. The Directors consider that the authorities proposed to be conferred by Resolutions 11 and 12 are necessary to retain flexibility, although they do not have any intention of exercising such authorities at the present time.

Directors' Authority to Buy Back Shares

During the year, the Company bought back 600,000 Ordinary Shares to be held in treasury.

The current authority of the Company to make market purchases of up to 14.99% of the issued Ordinary Shares expires at the end of the Annual General Meeting and Resolution 13, as set out in the notice of the Annual General Meeting, seeks renewal of such authority. The renewed authority to make market purchases will be in respect of a maximum of 14.99% of the issued Ordinary Shares of the Company as at the date of the passing of the resolution, excluding treasury shares (approximately 2.5 million Ordinary Shares). The price paid for shares (exclusive of expenses) will not be less than the nominal value of 50p per share nor more than 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase. This power will only be exercised if, in the opinion of the Directors, a purchase would result in an increase in the NAV per share and be in the best interests of the shareholders as a whole.

The Board's intention is to apply an active discount management policy, and to consider a buy back of shares if the discount of share price to the NAV per share is greater than 10% for a sustained period of time.

The making and timing of any share buy backs will be at the absolute discretion of the Board.

Treasury Shares

Shares which are bought back by the Company pursuant to the share buy back authority may be cancelled or held by the Company in treasury and subsequently re-issued. Shares held in treasury will not carry any voting rights, dividends payable in respect of them will be suspended and they will have no entitlements on a winding-up of the Company.

It is the Board's policy that shares will only be re-issued from treasury either at a price representing a premium to the NAV per share at the time of re-issue, or at a discount to the NAV per share provided that such discount is lower than the weighted average discount to the NAV per share when they were bought back by the Company.

It is also the Board's policy that shares may be held in treasury indefinitely.

The Board believes that the treasury shares policy will improve liquidity in the shares and help to maintain the size of the Company. Furthermore, the Board believes that the re-issuance of shares from treasury at a discount to the NAV per share within the parameters described above will, in conjunction with the Company's share buy back policy, ensure that the overall effect of the 'round trip' of repurchasing shares and subsequently re-issuing them from treasury will be an enhancement to the NAV per share.

As at 6 June 2013, there were 17,448,260 Ordinary Shares in issue, including 815,000 Ordinary Shares held in treasury (which represented 4.7% of the total issued ordinary share capital as at 6 June 2013).

It is the Board's intention that any further shares bought back by the Company will be held in treasury.

Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank debt and debtors and creditors that arise directly from its operations, such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 15 to the Accounts.

Disclosure of Relevant Information to the Auditor

Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's Auditor is unaware and each Director has taken all steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as Auditor and a resolution proposing its re-appointment will be proposed at the Annual General Meeting.

Individual Savings Accounts ('ISAs')

The Company's shares are qualifying investments as defined by HM Revenue & Customs' regulations for ISAs. It is the current intention of the Directors that the Company will continue to conduct its affairs to satisfy this requirement.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. The Company did not have any trade creditors at the year end.

Recommendation

The Directors consider that the passing of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of these resolutions.

By order of the Board

F&C INVESTMENT BUSINESS LIMITED
Company Secretary
80 George Street
Edinburgh EH2 3BU
6 June 2013

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Companies Act 2006. An Ordinary Resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in its report on pages 26 and 27.

The Remuneration Committee consists solely of independent non-executive Directors and determines the level of the Directors' fees in accordance with the UK Corporate Governance Code. The Administrator provides information on comparative levels of Directors' fees to the Remuneration Committee in advance of each review.

The Remuneration Committee comprises A R Irvine, R B M Graham, R A Hammond-Chambers, R M Martin and M R Somerset Webb. The committee is chaired by Mrs M R Somerset Webb. As the Company has no executive Directors, the Committee meets at least annually to review the remuneration and terms of appointment of the Manager and to determine the level of Directors' fees.

There were no changes to the level of Directors' fees during the year.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the responsibilities of being a Director, including the potential liabilities associated with the position, and the time committed by them to these responsibilities including, where appropriate, Board committee duties. It is intended that this policy will continue for the year ending 31 March 2014 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £200,000 in aggregate per annum. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' Emoluments for the Year (audited)

The Directors who served during the financial year received the following emoluments in the form of fees:

	2013 £	2012 £
A R Irvine	**28,500**	28,500
R B M Graham	**23,000**	23,000
R A Hammond-Chambers*	**19,000**	19,000
J Lumsden (retired 19 July 2012)	**5,720**	19,000
R M Martin	**19,000**	19,000
M R Somerset Webb	**19,000**	19,000
Total	**114,220**	127,500

* Includes fees of £13,000 (2012: £13,000) paid to Alex Hammond-Chambers and Company.

Directors' Service Contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Director	Date of appointment	Due date for re-election
A R Irvine	10/01/1992	AGM 2013
R B M Graham	24/06/2003	AGM 2013
R A Hammond-Chambers	22/06/2004	AGM 2013
R M Martin	01/02/2006	AGM 2013
M R Somerset Webb	28/03/2011	AGM 2013

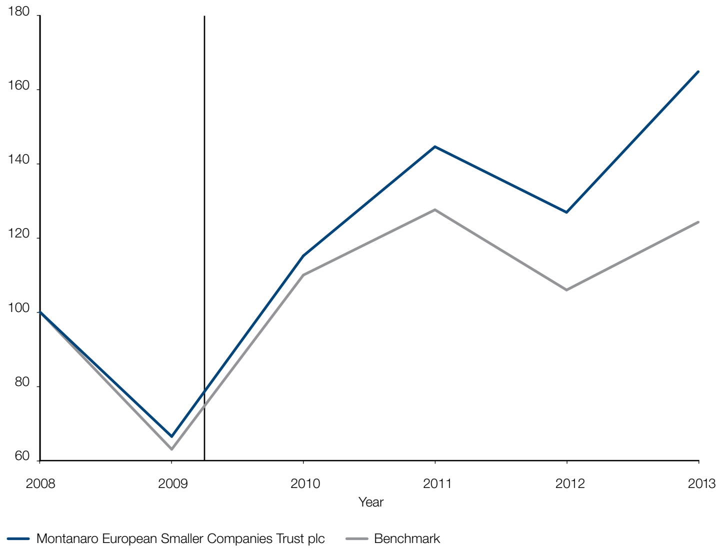
The terms of Directors' appointments provide that Directors should retire and be subject to election at the first Annual General Meeting after their appointment. Directors are obliged to offer themselves for re-election by shareholders by not later than the third Annual General Meeting after they were last elected. However, the Board has agreed that all Directors will retire annually. There is no notice period and no provision for compensation upon early termination of appointment.

The Company's policy when determining the duration of, and any notice periods and termination payments under, letters of appointment is to follow prevailing best practice and be comparable to those of other relevant investment trusts that are similar in size and have similar investment objectives and structures.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the investment management agreement, as referred to in the Report of the Directors on pages 18 and 19. The graph below compares, for the five financial years ended 31 March 2013, the share price total return (assuming all dividends are reinvested) to shareholders compared to the total shareholder return from the benchmark index. An explanation of the performance of the Company for the year ended 31 March 2013 is given in the Chairman's Statement and the Manager's Report.

Total Return vs Benchmark* (rebased from March 2008)



* 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.

On behalf of the Board

A R IRVINE
Director
6 June 2013

Management Report, Directors' Responsibilities Statement and Independent Auditor's Report

Management Report

Listed companies are required by the Financial Conduct Authority's Disclosure Rules and Transparency Rules (the 'Rules') to include a management report in their annual financial statements. The information required to be in the management report for the purpose of the Rules is included in the Chairman's Statement (pages 2 and 3), the Manager's Report (pages 4 to 7), Twenty Largest Holdings (pages 8 and 9), Analysis of Investment Portfolio by Sector (page 10) and the Business Review contained in the Report of the Directors (pages 13 to 17). Therefore a separate management report has not been included.

Statement of Directors' Responsibilities in Relation to the Group and Company Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and those international Financial Reporting Standards as adopted by the European Union.

Under company law the Directors must not approve the Group and Company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and the Company for that period. In preparing the Group and the Company financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: '*Accounting Policies, Changes in Accounting Estimates and Errors*' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group and Company have complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility Statements under the Disclosure Rules and Transparency Rules

Each of the Directors confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and Company together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

A R IRVINE
Director
6 June 2013

Independent Auditor's Report to the Members of Montanaro European Smaller Companies Trust plc

We have audited the financial statements of Montanaro European Smaller Companies Trust plc for the year ended 31 March 2013 which comprise the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on pages 20 and 21, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

ASHLEY COUPS
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP,
Statutory Auditor
London
6 June 2013

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2013

	Notes	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Capital gains on investments							
Gains/(losses) on investments held at fair value	9	**–**	**14,760**	**14,760**	–	(10,737)	(10,737)
Exchange (losses)/gains		**–**	**(261)**	**(261)**	–	310	310
			14,499	**14,499**	–	(10,427)	(10,427)
Revenue							
Investment income	2	**2,376**	**–**	**2,376**	2,309	–	2,309
Other operating income	2	**7**	**–**	**7**	26	–	26
Total income		**2,383**	**14,499**	**16,882**	2,335	(10,427)	(8,092)
Expenditure							
Management expenses	3	**(245)**	**(502)**	**(747)**	(241)	(447)	(688)
Other expenses	4	**(502)**	**–**	**(502)**	(515)	–	(515)
Total expenditure		**(747)**	**(502)**	**(1,249)**	(756)	(447)	(1,203)
Profit before finance costs and taxation		**1,636**	**13,997**	**15,633**	1,579	(10,874)	(9,295)
Finance costs	5	**(139)**	**(258)**	**(397)**	(172)	(319)	(491)
Profit before taxation		**1,497**	**13,739**	**15,236**	1,407	(11,193)	(9,786)
Taxation	6	**(211)**	**–**	**(211)**	(289)	–	(289)
Total comprehensive income		**1,286**	**13,739**	**15,025**	1,118	(11,193)	(10,075)
Return per share	8	**7.7p**	**82.3p**	**90.0p**	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 on Investment Companies.

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

No operations were acquired or discontinued in the year.

All of the profit and total comprehensive income for the year is attributable to the owners of the Company.

The accompanying notes are an integral part of the financial statements.

Balance Sheets
as at 31 March 2013

		Company		Group	
	Notes	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Non-current assets					
Investments held at fair value through profit and loss	9	**94,360**	82,614	**94,360**	82,502
Current assets					
Trade and other receivables	10	**433**	192	**433**	192
Cash and cash equivalents	10	**11,191**	11,301	**11,191**	11,301
		11,624	11,493	**11,624**	11,493
Total assets		**105,984**	94,107	**105,984**	93,995
Current liabilities					
Trade and other payables	11	**(12,975)**	(12,829)	**(12,975)**	(12,717)
Total liabilities		**(12,975)**	(12,829)	**(12,975)**	(12,717)
Net assets		**93,009**	81,278	**93,009**	81,278
Capital and reserves					
Called-up share capital	12	**8,724**	8,724	**8,724**	8,724
Share premium account		**5,178**	5,178	**5,178**	5,178
Capital redemption reserve		**2,212**	2,212	**2,212**	2,212
Capital reserve		**73,937**	62,688	**73,937**	62,577
Revenue reserve		**2,958**	2,476	**2,958**	2,587
Shareholders' funds		**93,009**	81,278	**93,009**	81,278
Net asset value per share	13	**559.2p**	471.6p	**559.2p**	471.6p

The financial statements on pages 28 to 45 were approved by the Board of Directors and authorised for issue on 6 June 2013 and signed on its behalf by:

A R IRVINE
Director

The accompanying notes are an integral part of the financial statements.

Company Statement of Changes in Equity
for the year ended 31 March 2013

	Notes	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	62,688	2,476	81,278
Total comprehensive income		–	–	–	13,628	1,397	15,025
Shares repurchased		–	–	–	(2,379)	–	(2,379)
Dividends paid	7	–	–	–	–	(915)	(915)
Balance at 31 March 2013		**8,724**	**5,178**	**2,212**	**73,937**	**2,958**	**93,009**

	Notes	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	71,847	2,119	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	7	–	–	–	–	(761)	(761)
Balance at 31 March 2012		**8,724**	**5,178**	**2,212**	**62,688**	**2,476**	**81,278**

Consolidated Statement of Changes in Equity
for the year ended 31 March 2013

	Notes	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	7	–	–	–	–	(915)	(915)
Balance at 31 March 2013		**8,724**	**5,178**	**2,212**	**73,937**	**2,958**	**93,009**

	Notes	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	7	–	–	–	–	(761)	(761)
Balance at 31 March 2012		**8,724**	**5,178**	**2,212**	**62,577**	**2,587**	**81,278**

The accompanying notes are an integral part of the financial statements.

Cash Flow Statements
for the year ended 31 March 2013

		Company		Group	
	Notes	**2013 £'000**	2012 £'000	**2013 £'000**	2012 £'000
Cash flows from operating activities					
Profit/(loss) before finance costs and taxation		**15,633**	(9,295)	**15,633**	(9,295)
Investments (gains)/losses		**(14,648)**	10,737	**(14,760)**	10,737
Withholding tax		**(294)**	(341)	**(294)**	(341)
Exchange losses/(gains)		**261**	(310)	**261**	(310)
(Increase)/decrease in receivables		**(158)**	104	**(158)**	104
Increase/(decrease) in payables		**135**	(923)	**135**	(923)
Purchases of investments		**(24,768)**	(29,850)	**(24,768)**	(29,850)
Sales of investments		**27,670**	25,599	**27,670**	25,599
Net cash inflow/(outflow) from operating activities		**3,831**	(4,279)	**3,719**	(4,279)
Cash flows from financing activities					
Dividends paid	7	**(915)**	(761)	**(915)**	(761)
Interest paid		**(457)**	(468)	**(457)**	(468)
Share repurchased		**(2,379)**	(744)	**(2,379)**	(744)
Issue of shares from treasury		**–**	4,021	**–**	4,021
Drawdown of borrowings		**–**	2,190	**–**	2,190
Repayment of subsidiary loan		**(112)**	–	**–**	–
Net cash (outflow)/inflow from financing activities		**(3,863)**	4,238	**(3,751)**	4,238
Net decrease in cash and cash equivalents		**(32)**	(41)	**(32)**	(41)
Exchange losses		**(78)**	(444)	**(78)**	(444)
Decrease in cash and cash equivalents		**(110)**	(485)	**(110)**	(485)
Cash and cash equivalents at beginning of year		**11,301**	11,786	**11,301**	11,786
Cash and cash equivalents at end of year	10	**11,191**	11,301	**11,191**	11,301

The accompanying notes are an integral part of the financial statements.

Notes to the Accounts
for the year ended 31 March 2013

1 Accounting Policies
A summary of the principal accounting policies is set out below.

BASIS OF ACCOUNTING
The financial statements of the Group have been prepared in accordance with the Companies Act 2006, International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ('IASC') that remain in effect, and to the extent that they have been adopted by the European Union.

The financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment companies issued by the Association of Investment Companies ('AIC') in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (functional and presentational currency) and are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements is the responsibility of the Board of Directors and requires the Manager and Administrator to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. The nature of the estimation means that actual outcomes could differ from those estimates.

Significant estimates and assumptions include the fair value of financial instruments. The valuation of financial assets held by the Group at the year end have been derived from active, liquid markets. Risks relating to the valuations are disclosed in note 15.

In assessing the going concern basis the Directors have given due regard to the guidance issued by the Financial Reporting Council in October 2009. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The accounting policies adopted are consistent with those of the previous financial year.

The following new standards have been issued but are not effective for this accounting period and have not been adopted early:

- In October 2010, the IASB issued IFRS 9 (2010) '*Financial Instruments*' which, following an amendment in December 2011, becomes effective for accounting periods commencing on or after 1 January 2015. This represents part of a project to replace IAS 39 '*Financial Instruments: Recognition and Measurement*'. The objective of the standard is to enhance the ability of investors and other users of financial information to understand the accounting of financial assets and to reduce complexity.
- In June 2011, the IASB issued '*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. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for accounting periods beginning on or after 1 July 2012.

- In May 2011, the IASB issued IFRS 10 '*Consolidated Financial Statements*'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- In May 2011, the IASB issued IFRS 12 '*Disclosure of Involvement with Other Entities*'. IFRS 12 includes all the disclosures which were previously required by IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- As a consequence of the new IFRS 10 and IFRS 12 above, what remains of IAS 27 '*Separate Financial Statements (2011)*' is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- In May 2011, the IASB issued IFRS 13 '*Fair Value Measurement*'. 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. A number of additional disclosures will be required. This standard becomes effective for accounting periods beginning on or after 1 January 2013.
- On 31 October 2012, the IASB issued amendments to IFRS 10 '*Consolidated Financial Statements*', IFRS 12, '*Disclosure of Interests in Other Entities*' and IAS 27, '*Separate Financial Statements*'. These amendments are expected to exempt the Company from consolidating controlled investees and allow the Company to fair value controlled investments, rather than having to consolidate them. The amendments to IFRS 12 introduce additional disclosures. The amendments become effective in the EU for accounting periods beginning on or after 1 January 2014.

The Group does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented except for changes to disclosures.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary) made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

No Statement of Comprehensive Income is presented for the Company, as permitted by Section 408 of the Companies Act 2006. The profit of the Company for the year ended 31 March 2013 was £15,025,000 (2012: loss £10,075,000).

OPERATING SEGMENTS

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, 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 total return on 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.

Notes to the Accounts continued
for the year ended 31 March 2013

1 Accounting Policies continued

PRESENTATION OF STATEMENT OF COMPREHENSIVE INCOME

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income. The net revenue return is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1158 of the Corporation Tax Act 2010.

INCOME

Dividends are recognised as income on the date that the related investments are marked ex-dividend.

Dividends receivable on equity shares where no ex-dividend date is quoted are recognised when the Group's right to receive payment is established.

Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income.

Interest income is accounted for on an accruals basis.

EXPENSES AND FINANCE COSTS

All expenses and finance costs are accounted for on an accruals basis and are charged against revenue, except where incurred in connection with the maintenance or enhancement of the value of the Group's assets and taking account of the expected long-term returns as follows:

– finance costs payable are allocated 35% to revenue and 65% to capital.

– basic management fees payable are allocated 35% to revenue and 65% to capital.

– performance fees payable are allocated 100% to capital.

TAXATION

The tax expense represents the sum of the tax currently payable and movements in deferred tax. Tax payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable to taxation on capital gains.

INVESTMENTS

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within a timeframe established by the market concerned, and are initially measured at fair value being consideration received. Investments are classified as fair value through profit or loss. As the Group's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition.

The Group manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy, and information about the investments is provided internally on this basis to the entity's key management personnel.

Financial assets designated at fair value through profit or loss are measured at subsequent reporting dates at fair value, which is the bid price or the last traded price depending on the convention of the exchange on which the investment is listed.

Where securities are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value are included in the net profit or loss for the period as a capital item and transaction costs on acquisition or disposal of the security are expensed.

The Company's investment in its subsidiary, MESCT Securities Limited, is valued by the Directors at its net asset value which is considered to be the best representation of fair value.

CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CAPITAL RESERVE

The following are included in this reserve:

- gains and losses on the realisation of investments.
- increases and decreases in the valuation of investments held at the year end.
- exchange differences of a capital nature.
- special dividends of a capital nature.
- expenses and finance costs, together with the related taxation effect, charged in accordance with the above policies.
- cost of purchasing Ordinary Shares to be held in treasury or cancelled.
- proceeds from the issue of Ordinary Shares held in treasury equivalent to the original cost of the repurchase.

In addition, the Company's Articles of Association permit it to distribute from the Capital Reserve any surplus arising from the realisation of its investments.

Notes to the Accounts continued
for the year ended 31 March 2013

1 Accounting Policies continued

SHARE PREMIUM ACCOUNT

The following are included in this reserve:

– the surplus of net proceeds received from the issue of new shares over the par value of such shares.

– gains arising on the sale of shares from treasury.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Balance Sheet of the Group and of the Company when the Group becomes a party to the contractual provisions of the instrument. The Group shall offset financial assets and financial liabilities if it has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

FOREIGN CURRENCIES

Overseas assets and liabilities are translated at the bid price rate ruling at the balance sheet date. Profits or losses on retranslation of investments at the year end are included within holding gains/(losses) on investments and are taken to the Capital Reserve. Exchange gains and losses of a revenue nature are taken to the Revenue Reserve.

Rates of exchange	31 March 2013	31 March 2012
Danish Krone	**8.82**	8.93
Euro	**1.18**	1.20
Norwegian Krone	**8.86**	9.11
Swedish Krona	**9.87**	10.60
Swiss Franc	**1.44**	1.44

2 Income

	2013 £'000	2012 £'000
Investment income		
Overseas dividend income	**2,376**	2,309
	2,376	2,309
Other operating income		
Deposit interest	**7**	26
Total	**2,383**	2,335

3 Management Expenses

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Investment management fee (basic)	**245**	**455**	**700**	241	447	688
Investment management fee (performance)	**–**	**47**	**47**	–	–	–
	245	**502**	**747**	241	447	688

Details of the management fee arrangements during the year are contained within the Report of the Directors on pages 18 and 19.

4 Other Expenses

	2013 Revenue £'000	**2013 Capital £'000**	**2013 Total £'000**	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Directors' fees	**114**	**–**	**114**	128	–	128
Auditors' remuneration for:						
– audit	**18**	**–**	**18**	18	–	18
– tax compliance	**8**	**–**	**8**	7	–	7
Secretarial and administration fee	**147**	**–**	**147**	142	–	142
Other	**215**	**–**	**215**	220	–	220
	502	**–**	**502**	515	–	515

5 Finance Costs

	2013 Revenue £'000	**2013 Capital £'000**	**2013 Total £'000**	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Interest payable on revolving credit facility	**139**	**258**	**397**	172	319	491

6 Taxation

	2013 Revenue £'000	**2013 Capital £'000**	**2013 Total £'000**	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Overseas tax	**211**	**–**	**211**	289	–	289

As at 31 March 2013, the Company had unutilised management expenses for taxation purposes of £15,313,000 (2012: £13,720,000). A deferred tax asset of £3,531,000 (2012: £3,293,000) has not been recognised on the unutilised expenses as it is unlikely that there will be suitable taxable profits from which the future reversal of the deferred tax could be deducted.

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company. The differences are explained below:

	2013 £'000	2012 £'000
Profit/(loss) on ordinary activities before taxation	**15,236**	(9,786)
Corporation tax at standard rate of 24% (2012: 26%)	**3,656**	(2,544)
Effects of:		
Non-taxable gains/(losses) on investments	**(3,542)**	2,792
Movement in unutilised expenses	**393**	433
Non-taxable overseas income	**(570)**	(600)
Exchange losses/(gains)	**63**	(81)
Overseas tax	**211**	289
Total tax charge for the year	**211**	289

Notes to the Accounts continued
for the year ended 31 March 2013

7 Dividends

	2013 £'000	2012 £'000
Final dividend for the year ended 31 March 2011 of 2.75p per share	**–**	456
Interim dividend for the year ended 31 March 2012 of 1.75p per share	**–**	305
Final dividend for the year ended 31 March 2012 of 3.75p per share	**624**	–
Interim dividend for the year ended 31 March 2013 of 1.75p per share	**291**	–
	915	761

Amounts relating to the year but not paid at the year end:		
Final dividend for the year ended 31 March 2012 of 3.75p per share	**–**	624
Final dividend for the year ended 31 March 2013 of 5.00p per share	**832**	–
	832	624

8 Return Per Share

	2013 Revenue	**2013 Capital**	**2013 Total**	2012 Revenue	2012 Capital	2012 Total
Basic	**7.7p**	**82.3p**	**90.0p**	6.5p	(65.3)p	(58.8)p

Basic total return per Ordinary Share is based on the total comprehensive income for the financial year of £15,025,000 (2012: (£10,075,000)) and on 16,687,607 (2012: 17,140,801) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

Basic revenue return per Ordinary Share is based on the net revenue return on ordinary activities after taxation of £1,286,000 (2012: £1,118,000), and on 16,687,607 (2012: 17,140,801) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

Basic capital return per Ordinary Share is based on the net capital return for the financial year of £13,739,000 (2012: (£11,193,000)), and on 16,687,607 (2012: 17,140,801) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year, excluding those shares bought back and held in treasury.

9 Investments at Fair Value Through Profit and Loss

	Company		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Equity investments listed on recognised investment exchanges	**94,360**	82,502	**94,360**	82,502
Unlisted investments	**–**	112	**–**	–
	94,360	82,614	**94,360**	82,502

	Company			Group	
	Listed overseas £'000	Unlisted £'000	Total £'000	Listed overseas £'000	Total £'000
Opening cost	66,132	–	66,132	66,132	66,132
Holding gains	16,370	112	16,482	16,370	16,370
Opening fair value	82,502	112	82,614	82,502	82,502
Purchases at cost	24,768	–	24,768	24,768	24,768
Sales – proceeds	(27,670)	–	(27,670)	(27,670)	(27,670)
– gains on sales	5,138	–	5,138	5,138	5,138
Holding gains/(losses)	9,622	(112)	9,510	9,622	9,622
Closing fair value	94,360	–	94,360	94,360	94,360
Closing cost	68,368	–	68,368	68,368	68,368
Holding gains	25,992	–	25,992	25,992	25,992
Closing valuation	**94,360**	**–**	**94,360**	**94,360**	**94,360**

Net gains on the realisation of investments during the year represents the difference between the net proceeds of sale and the book cost of investment sold.

Movement in fair value represents the increase in the difference between book cost of investments held and their market value at 31 March 2013 compared with the difference between the book cost of investments held and their market value at 31 March 2012.

TRANSACTION COSTS

The Group incurred transaction costs on the purchase and sale of investments of £26,000 each (2012: £54,000 and £46,000 respectively).

	Company		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Gains on sales	**5,138**	3,751	**5,138**	3,751
Increase/(decrease) in holding gains	**9,510**	(14,488)	**9,622**	(14,488)
Gains/(losses) on investments held at fair value	**14,648**	(10,737)	**14,760**	(10,737)

Notes to the Accounts continued
for the year ended 31 March 2013

10 Current Assets

	Company		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Prepayments and accrued income	**298**	140	**298**	140
Overseas tax recoverable	**135**	52	**135**	52
	433	192	**433**	192

The carrying value of the balances above approximates to fair value.

CASH AND CASH EQUIVALENTS
These comprise bank balances and cash held by the Group including short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

	Company		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Cash at bank and on hand	**87**	166	**87**	166
Short-term deposits	**11,104**	11,135	**11,104**	11,135
	11,191	11,301	**11,191**	11,301

11 Current Liabilities

	Company		Group	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Loan from subsidiary undertaking	**–**	112	**–**	–
Revolving credit facility	**12,685**	12,502	**12,685**	12,502
Other creditors	**290**	215	**290**	215
	12,975	12,829	**12,975**	12,717

The Company has an unsecured €15 million revolving credit facility of which a sterling equivalent of £12,685,000 was drawn down as at 31 March 2013 at an interest rate of 2.77% pa. £12,685,000 is repayable on 30 July 2013 (2012: £12,502,000 repayable on 30 July 2012).

Under the bank covenants relating to the facility, the Company is to ensure that at all times the total borrowings of the Company do not exceed 40% of the Adjusted Net Asset Value (as defined in the loan agreement) and that the Adjusted Net Asset Value does not fall below £34 million. The Company met all covenant conditions during the year and the preceding year.

12 Share Capital

	Company and Group	
	2013 £'000	2012 £'000
Issued and fully paid:		
17,448,260 Ordinary Shares of 50p each at 31 March 2013 (2012: 17,448,260)	**8,724**	8,724

During the year the Company brought back 600,000 Ordinary Shares (2012: 215,000) to hold in treasury at a cost of £2,379,000 (2012: £744,000).

Of the above shares in issue, the movements in Ordinary Shares held in treasury are:

	2013	2012
As at 1 April	**215,000**	875,000
Purchased during the year	**600,000**	215,000
Issued during the year	**–**	(875,000)
As at 31 March	**815,000**	215,000

CAPITAL MANAGEMENT

The Group's capital is represented by the issued share capital, Share Premium Account, Capital Redemption Reserve, Capital Reserve, Revenue Reserve and external debt financing. Details of the movement through each reserve are shown in the Statement of Changes in Equity. The Company is not subject to any externally imposed capital requirements.

The Group's capital is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Report of the Directors.

13 Net Asset Value per Ordinary Share

	Company and Group Net asset value per share		Company and Group Net asset value	
	2013 p	2012 p	**2013 £'000**	2012 £'000
Net asset value per Ordinary Share	**559.2**	471.6	**93,009**	81,278

The net asset value per share is based on net assets at the year end and on 16,633,260 (2012: 17,233,260) Ordinary Shares, being the number of Ordinary Shares in issue at the year end, excluding those shares bought back and held in treasury.

Notes to the Accounts continued
for the year ended 31 March 2013

14 Significant Interests

Name	Country of incorporation or registration	Class of capital	Share capital and reserves £'000	Profit for the year £'000	Percent of class held	Percent of equity held	Valuation at 31 March 2013 £'000
MESCT Securities Limited	Scotland	Ordinary	–	–	100	100	–

15 Financial Instruments

The Group's financial instruments comprise its investment portfolio, cash balances, bank loan, and debtors and creditors that arise directly from its operations. As an investment trust the Company holds a portfolio of financial assets in pursuit of its investment objective. The Group makes use of borrowings, as detailed in note 11 and the Chairman's Statement, to achieve improved performance in rising markets. The downside risk of borrowings may be reduced by raising the level of cash balances held.

Listed fixed asset investments held (see note 9) are valued at fair value through profit or loss. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 29. The fair value of the loan is not materially different from the carrying value in the Balance Sheet.

Qualitative risks are discussed in the Report of the Directors on pages 15 and 16.

Quantitive risks arising from the Group's financial instruments are:

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;

(iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales, bank loans and income will fluctuate because of movements in currency rates;

(iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group; and

(v) liquidity risk, being the risk that the Group may not be able to liquidate quickly its investments to meet obligations associated with its financial liabilities.

The Group held the following categories of financial instruments as at 31 March 2013:

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**2013 £'000**	Level 1 £'000	Level 2 £'000	Level 3 £'000	2012 £'000
Financial instruments (Group)								
Investments	**94,360**	**–**	**–**	**94,360**	82,502	–	–	82,502
Cash	**11,191**	**–**	**–**	**11,191**	11,301	–	–	11,301
Financial instruments (Company)								
Investments	**94,360**	**–**	**–**	**94,360**	82,502	112	–	82,614
Cash	**11,191**	**–**	**–**	**11,191**	11,301	–	–	11,301

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 includes 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.

16 Market Price Risk

Mitigation of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis with an objective of maximising overall returns to shareholders. Further information on the investment portfolio is set out on pages 8 to 10.

If the investment portfolio valuation had fallen by 10% (2012: 10%) at 31 March 2013, the impact on the profit or loss and the net asset value would have been negative £9.4 million (2012: negative £8.3 million). If the investment portfolio valuation had risen by 10% (2012: 10%) at 31 March 2013, the impact on the profit or loss and the net asset value would have been positive £9.4 million (2012: positive £8.3 million). The calculations are based on the portfolio valuation as at the respective balance sheet dates and are not representative of the year as a whole.

17 Interest Rate Risk

FLOATING RATE

When the Group retains cash balances, the majority of the cash is held in deposit accounts. As at 31 March 2013, the cash position of the Group was £11.2 million (31 March 2012: £11.3 million). The benchmark rate which determines the interest payments received on cash balances is the bank base rate for the relevant currency for each deposit.

The Group has floating rate liabilities that are denominated in Euros. The benchmark rate which determines the interest payments made on the revolving credit facility is based on the rate set by the European Central Bank.

The Company has entered into a €15 million multi currency revolving credit facility with ING Bank N.V., of which a sterling equivalent of £12.7 million was drawn down at 31 March 2013 at a rate of interest of 2.77% pa. As at 31 March 2012 a sterling equivalent of £12.5 million was drawn down at a rate of interest of 4.19% pa.

If the bank base rate had increased by 1.0%, the impact on the profit or loss and the net asset value would have been negative £15,000 (2012: negative £12,000). If the bank base rate had decreased by 1.0%, the impact on the profit or loss and the net asset value would have been positive £15,000 (2012: positive £12,000). The calculations are based on the cash and loan balances as at the respective balance sheet dates and are not representative of the year as a whole.

Notes to the Accounts continued
for the year ended 31 March 2013

18 Foreign Currency Risk
The Group invests in overseas securities and holds foreign currency cash balances and foreign currency borrowings which give rise to currency risks.

It is not the Group's policy to hedge this risk on a continuing basis but it may do so from time to time.

Foreign currency exposure:

	2013 Investments £'000	**2013 Cash £'000**	**2013 Loans £'000**	2012 Investments £'000	2012 Cash £'000	2012 Loans £'000
Danish Krone	**3,303**	**–**	**–**	5,021	–	–
Euro	**58,092**	**11,140**	**(12,685)**	49,288	11,153	(12,502)
Norwegian Krone	**3,389**	**–**	**–**	4,978	–	–
Swedish Krona	**19,696**	**–**	**–**	15,695	55	–
Swiss Franc	**9,880**	**–**	**–**	7,520	–	–
Total	**94,360**	**11,140**	**(12,685)**	82,502	11,208	(12,502)

In addition, the following currency amounts are included within current assets as at 31 March 2013: dividends receivable in Euros of £229,000 and Swedish Krona of £67,000. As at 31 March 2012, the Group had dividends receivable in Euros of £138,000.

As at 31 March 2013, the Group had loan interest payable in Euros of £28,000 included within current liabilities (2012: £88,000).

If the value of sterling had weakened by 5% (2012: 5%) against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been negative £81,000 (2012: negative £68,000). If the value of sterling had strengthened by 5% (2012: 5%) against each of the currencies in the portfolio, the impact on the profit or loss and the net asset value would have been positive £74,000 (2012: positive £62,000). The calculations are based on cash and loan balances only as at the respective balance sheet dates and are not representative of the year as a whole.

19 Credit Risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. The Group has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

The Group had the following categories of financial assets exposed to credit risk as at 31 March 2013:

	2013 £'000	2012 £'000
Cash and cash equivalents	**11,191**	11,301
Prepayments and accrued income and overseas tax recoverable	**433**	192
	11,624	11,493

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the financial stability and credit quality of the brokers used, which are monitored on an ongoing basis by the Manager. The Manager also monitors the quality of service provided by the brokers used to further mitigate this risk.

There were no significant concentrations of credit risk to counterparties at 31 March 2013 or 31 March 2012.
No individual investment exceeded 3.7% of the investment portfolio at 31 March 2013 (2012: 3.7%).

A significant majority of the assets of the Company which are traded on a recognised exchange are held in segregated accounts on behalf of the Company by JPMorgan Chase Bank ('JPM'), the Company's custodian. Bankruptcy or insolvency of this or other custodians may cause the Company's rights with respect to securities held by the custodians to be delayed. The Board monitors the Company's risk by reviewing the custodians' internal control reports.

The Company's cash balances are held by a number of counterparties. Bankruptcy or insolvency of these counterparties may cause the Company's rights with respect to the cash balances to be delayed or limited. The Manager and Administrator monitor the financial stability and credit quality of the relevant counterparties and should the credit quality or the financial position of these counterparties deteriorate significantly the cash holdings will be moved to another bank.

20 Liquidity Risk

The Group does not hold unlisted securities (31 March 2012: £nil). The Group's listed securities are considered to be readily realisable.

As with all smaller company investment trusts, there are times when the liquidity of the underlying portfolio is poor, such as when smaller companies are out of favour or during periods of adverse economic conditions. The Manager focuses on smaller companies where the opportunities may be more attractive but this can decrease overall underlying liquidity. This may result in the Manager being unable to buy or sell individual holdings within the portfolio. The Manager constantly reviews the underlying liquidity of the portfolio and deals with a wide range of brokers to enhance its ability to execute transactions and minimise liquidity risk. The Company's overall exposure to liquidity risks is monitored on a regular basis by the Board.

The Group maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Short-term flexibility is achieved, where necessary, through the use of overdraft facilities.

CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

As at 31 March 2013	**Within one month £'000**	**Between one and three months £'000**	**Between three and twelve months £'000**	**Between one and five years £'000**	**After five years £'000**	**Total £'000**
Current liabilities						
Other creditors	**188**	**102**	**–**	**–**	**–**	**290**
Revolving credit facility	**–**	**–**	**12,834**	**–**	**–**	**12,834**
Total liabilities	**188**	**102**	**12,834**	**–**	**–**	**13,124**

As at 31 March 2012	Within one month £'000	Between one and three months £'000	Between three and twelve months £'000	Between one and five years £'000	After five years £'000	Total £'000
Current liabilities						
Other creditors	4	112	–	–	–	116
Revolving credit facility	–	–	12,765	–	–	12,765
Total liabilities	4	112	12,765	–	–	12,881

21 Related Party Transactions

The Directors of the Company received fees for their services and dividends from their shareholdings in the Company. Further details are provided in the Directors' Remuneration Report on page 24 and the Report of Directors on page 17.

Shareholder Information

Annual General Meeting
The Annual General Meeting of Montanaro European Smaller Companies Trust plc will be held at 80 George Street, Edinburgh EH2 3BU, on Thursday 25 July 2013 at 12.30pm.

Key Dates

31 March 2013	Company year end
25 July 2013	Annual General Meeting
26 July 2013	Payment of final dividend
November 2013	Interim results announced
January 2014	Payment of expected interim dividend

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 11.

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 under the signature of the registered holder.

Frequency of 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, JISAs 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 – 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 Financial Conduct Authority ('FCA') before getting involved by visiting **www.fsa.gov.uk/register/home.do**
- Report the matter to the FCA by calling 0800 111 6768
- If the calls persist, hang up

More detailed information on this matter can be found on the FCA website:
www.fca.org.uk/consumers/scams

Glossary of Terms

Association of Investment Companies ('AIC')
The Association of Investment Companies is the trade body for investment trusts (www.theaic.co.uk).

Benchmark
This is a measure against which an investment trust's performance is compared. The benchmark of the Company is the MSCI Europe SmallCap (ex UK) Index (in sterling terms).

Discount
If the share price of an investment trust is less than its net asset value per share, the shares are trading at a discount.

Dividend
The income from an investment. Some investment trusts pay dividends on a quarterly or monthly basis. Montanaro European Smaller Companies Trust plc currently pays dividends twice a year.

Gearing
Unlike open-ended investment companies ('OEICs') and unit trusts, investment trusts have the ability to borrow to invest. This term is used to describe the level of borrowings that an investment trust has undertaken, and is stated as a percentage of shareholders' funds. The higher the level of borrowings, the higher the gearing ratio.

Investment Trust
An investment company which satisfies the requirements of Section 1158 of the Corporation Tax Act 2010. Companies which meet these criteria are exempt from having to pay tax on the capital gains they realise from sales of the investments within their portfolios.

Market Capitalisation
The stock market value of a company as determined by multiplying the number of shares in issue, excluding those shares held in treasury, by the market price of the shares.

Net Assets
This is calculated as the value of the investments and other assets of an investment trust plus cash and debtors less borrowings and any other creditors. It represents the underlying value of an investment trust at a point in time.

Net Asset Value ('NAV') per Share
This is calculated as the net assets of an investment trust divided by the number of shares in issue excluding those shares held in treasury.

Ongoing Charges
This is a measure of the level of expenses incurred by an investment trust during a reporting period. It is calculated as the sum of the investment management fee and other expenses (excluding performance fees) divided by the average net assets during the period.

Ordinary Shares
The main type of equity capital issued by conventional investment trusts. Shareholders are entitled to their share of both income, in the form of dividends paid by the investment trust, and any capital growth. Montanaro European Smaller Companies Trust plc has only ordinary shares in issue.

Premium
If the share price of an investment trust is greater than its net asset value per share, the shares are trading at a premium. It is more common for an investment trust's shares to trade at a discount than a premium.

Shareholders' Funds
See Net Assets.

Share Price
The value of a share at a point in time as quoted on a stock exchange. The shares of Montanaro European Smaller Companies Trust plc are quoted on the main market of the London Stock Exchange.

Total Assets
For an investment trust, this figure would give an indication of the value of all the company's investments plus cash and debtors before deducting any borrowings and other creditors.

Total Return
This is a measure of return on an investment. For a given period it will include both the movement in the market value of an investment and any income received from it.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Montanaro European Smaller Companies Trust plc (the 'Company') will be held at 80 George Street, Edinburgh EH2 3BU, on Thursday 25 July 2013 at 12.30pm for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 to 13 will be proposed as special resolutions.

Ordinary Resolutions

RESOLUTION 1 – ANNUAL REPORT AND ACCOUNTS

That the Annual Report and Accounts of the Company for the year ended 31 March 2013 be received.

RESOLUTION 2 – DIRECTORS' REMUNERATION REPORT

That the Directors' Remuneration Report for the year ended 31 March 2013 be approved.

RESOLUTION 3 – FINAL DIVIDEND

That a final dividend of 5.00p per Ordinary Share be declared.

RESOLUTION 4 – RE-ELECTION OF DIRECTOR

That Mrs M R Somerset Webb, who retires annually, be re-elected as a Director.

RESOLUTION 5 – RE-ELECTION OF DIRECTOR

That Mr R B M Graham, who retires annually, be re-elected as a Director.

RESOLUTION 6 – RE-ELECTION OF DIRECTOR

That Mr R A Hammond-Chambers, who retires annually, be re-elected as a Director.

RESOLUTION 7 – RE-ELECTION OF DIRECTOR

That Mr R M Martin, who retires annually, be re-elected as a Director.

RESOLUTION 8 – RE-ELECTION OF DIRECTOR

That Mr A R Irvine, who retires annually, be re-elected as a Director.

RESOLUTION 9 – RE-APPOINTMENT OF AUDITOR

That Ernst & Young LLP be re-appointed as the Company's auditor, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

RESOLUTION 10 – AUDITOR'S REMUNERATION

That the Directors be authorised to determine the auditor's remuneration.

RESOLUTION 11 – AUTHORITY TO ALLOT SHARES

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Board of Directors of the Company (the 'Board') be and is hereby generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £831,663, provided that this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2014 or, if earlier, on 30 September 2014 save that the Company may before such expiry make an offer or enter into an agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Board may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

RESOLUTION 12 – AUTHORITY TO ALLOT SHARES OTHER THAN ON A PRE-EMPTIVE BASIS

That, subject to the passing of resolution 11 set out in the notice of the Annual General Meeting of the Company convened for 25 July 2013 and in substitution for any existing authority, but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Board of Directors of the Company (the 'Board') be and is hereby generally empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, ordinary shares of 50 pence each in the capital of the Company ('Ordinary Shares') wholly for cash either pursuant to the authority conferred on them by such resolution 11 or by way of a sale of treasury shares (within the meaning of section 560(3) of the Act) as if section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities and the sale of treasury shares:

(i) in connection with a rights issue, open offer or other pre-emptive offer in favour of the holders of Ordinary Shares who are on the register of members on a date fixed by the Board where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them on that date (subject to such exclusions or other arrangements in connection with the rights issue, open offer or other offer as the Board deem necessary or expedient to deal with shares held in treasury, fractional entitlements to equity securities and to deal with any legal or practical problems or issues arising in any overseas territory or under the requirements of any regulatory body or stock exchange); and

(ii) otherwise than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £831,663,

and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the Annual General Meeting of the Company to be held in 2014 or, if earlier, on 30 September 2014 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 authority conferred hereby had not expired. This power shall authorise the Board to issue equity securities at such issue price as the Board may determine (including, without limitation, where equity securities are being issued from treasury at a price below the net asset value per Ordinary Share of the Company at the time of the relevant issue).

RESOLUTION 13 – AUTHORITY TO BUY BACK SHARES

That, in substitution for any existing authority but without prejudice to the exercise of any such authority prior to the date of the passing of this resolution, the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the 'Act') to make one or more market purchases (as defined in section 693(4) of the Act) of Ordinary Shares of 50 pence each in the capital of the Company ('Ordinary Shares') on such terms and in such manner as the Board of Directors may determine provided that:

(i) the maximum aggregate number of Ordinary Shares which may be purchased is 2,493,325 (or if less, 14.99 per cent of the number of Ordinary Shares in issue (excluding treasury shares) immediately prior to the passing of this resolution);

(ii) the minimum price which may be paid for an Ordinary Share is 50 pence (exclusive of associated expenses);

(iii) the maximum price which may be paid for an Ordinary Share (exclusive of associated expenses) shall not be more than the higher of: (a) an amount equal to 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (b) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange for an Ordinary Share; and

Notice of Annual General Meeting continued

(iv) unless previously renewed, varied or revoked, this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2014 or, if earlier, on 30 September 2014 save that the Company may before such expiry enter into a contract to purchase Ordinary Shares which will or may be completed wholly or partly after such expiry and a purchase of Ordinary Shares may be made pursuant to any such contract.

By order of the Board

F&C INVESTMENT BUSINESS LIMITED
Company Secretary
80 George Street
Edinburgh EH2 3BU
6 June 2013

Notes

1. Attending the Annual General Meeting in Person

If you wish to attend the Annual General Meeting in person, you should arrive at the venue for the Annual General Meeting in good time to allow your attendance to be registered. It is advisable to have some form of identification with you as you may be asked to provide evidence of your identity to the Company's registrar, Equiniti Limited (the 'Registrar'), prior to being admitted to the Annual General Meeting.

2. Appointment of Proxies

Members are entitled to appoint one or more proxies to exercise all or any of their rights to attend, speak and vote at the Annual General Meeting. A proxy need not be a member of the Company but must attend the Annual General Meeting to represent a member. To be validly appointed a proxy must be appointed using the procedures set out in these notes and in the notes to the accompanying proxy form.

If members wish their proxy to speak on their behalf at the meeting, members will need to appoint their own choice of proxy (not the Chairman of the Annual General Meeting) and give their instructions directly to them.

Members can only appoint more than one proxy where each proxy is appointed to exercise rights attached to different shares. Members cannot appoint more than one proxy to exercise the rights attached to the same share(s). If a member wishes to appoint more than one proxy, they should contact the Registrar on 0871 384 2030. Calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday. If calling from overseas please call +44 121 415 7047.

A member may instruct their proxy to abstain from voting on any resolution to be considered at the meeting by marking the 'Abstain' option when appointing their proxy. It should be noted that an abstention is not a vote in law and will not be counted in the calculation of the proportion of votes 'For' or 'Against' the resolution.

The appointment of a proxy will not prevent a member from attending the Annual General Meeting and voting in person if he or she wishes.

A person who is not a member of the Company but who has been nominated by a member to enjoy information rights does not have a right to appoint any proxies under the procedures set out in these notes and should read note 8 below.

3. Appointment of a Proxy Using a Proxy Form

A proxy form for use in connection with the Annual General Meeting is enclosed. To be valid, any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand by the Registrar at Equiniti Limited, Freepost 10850, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZR no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting.

If you do not have a proxy form and believe that you should have one, or you require additional proxy forms, please contact the Registrar on 0871 384 2030. Calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday. If calling from overseas please call +44 121 415 7047.

4. Appointment of a Proxy Through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual and by logging on to the following website: www.euroclear.com/CREST. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

Notice of Annual General Meeting continued

4. Appointment of a Proxy Through CREST continued

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid, be transmitted so as to be received by the Registrar (ID RA19) no later than 48 hours (excluding non-working days) before the time of the Annual General Meeting or any adjournment of that meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Appointment of Proxy by Joint Holders

In the case of joint holders, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

6. Corporate Representatives

Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).

7. Entitlement to Attend and Vote

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determining the votes they may cast), members must be registered in the Company's register of members at 6.00pm on 23 July 2013 (or, if the Annual General Meeting is adjourned, at 6.00pm on the day two days prior to the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

8. Nominated Persons

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the '2006 Act') to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

9. Website Giving Information Regarding the Annual General Meeting

Information regarding the Annual General Meeting, including information required by section 311A of the 2006 Act, and a copy of this notice of Annual General Meeting is available from www.montanaro.co.uk.

10. Audit Concerns

Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the 2006 Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the 2006 Act to publish on a website.

11. Voting Rights

As at 6 June 2013 (being the latest practicable date prior to the publication of this notice) the Company had 17,448,260 Ordinary Shares in issue, including 815,000 Ordinary Shares held in treasury. Each Ordinary Share (other than those held in treasury) carries one vote. The total voting rights in the Company as at 6 June 2013 were 16,633,260 votes.

12. Notification of Shareholdings

Any person holding 3 per cent or more of the total voting rights of the Company who appoints a person other than the Chairman of the Annual General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure Rules and Transparency Rules.

13. Further Questions and Communication

Under section 319A of the 2006 Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Members who have any queries about the Annual General Meeting should contact the Company Secretary at 80 George Street, Edinburgh EH2 3BU.

Members may not use any electronic address provided in this notice or in any related documents (including the Annual Report and Accounts and proxy form) to communicate with the Company for any purpose other than those expressly stated.

14. Documents Available for Inspection

The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting:

14.1 copies of the Directors' letters of appointment; and

14.2 copies of the Directors' deeds of indemnity.

Notes

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