MONTANARO

European Smaller Companies Trust plc

Annual Report and Accounts 2015

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. Its Ordinary Shares are listed on the Main Market of the London Stock Exchange.

The Company conducts its affairs so that its Ordinary Shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products and intends to continue to do so.

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 Image:
Berlin Cathedral, Germany

Highlights
for the year ended 31 March 2015

Results

> Net asset value ('NAV') per Ordinary Share -3.6%

> Share price -4.6%

> Benchmark index (capital return) +1.6%

> Total assets -4.9% (£106.7 million)

	As at 31 March 2015	As at 31 March 2014
Net assets ('000s)	**£95,751**	£98,683
NAV per Ordinary Share	**572.2p**	593.3p
Ordinary Share price	**515.0p**	540.0p
Discount	**10.0%**	9.0%
Dividends per Ordinary Share	**7.50p**	7.00p
Gearing*	**6.8%**	5.4%

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

Historic Record

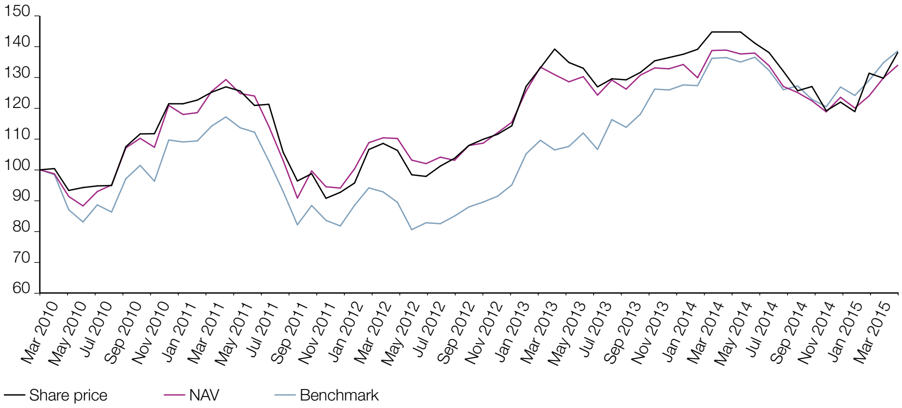
	Net assets £'000s	NAV per share	Ordinary Share price	Discount	Dividends per share	Ongoing Charges***
5 September 2006*	60,022	344.0p	322.0p	6.4%	n/a	1.6%
31 March 2007	74,447	426.7p	404.0p	5.3%	4.00p	1.8%
31 March 2008	69,061	401.6p	340.0p	15.3%	4.00p	1.8%
31 March 2009	42,653	257.4p	220.8p	14.2%	7.33p**	1.6%
31 March 2010	71,059	428.8p	373.0p	13.0%	4.50p	1.7%
31 March 2011	88,837	536.0p	467.0p	12.9%	4.50p	1.6%
31 March 2012	81,278	471.6p	405.0p	14.1%	5.50p	1.5%
31 March 2013	93,009	559.2p	519.3p	7.1%	6.75p	1.5%
31 March 2014	98,683	593.3p	540.0p	9.0%	7.00p	1.5%
31 March 2015	95,751	572.2p	515.0p	10.0%	7.50p	1.5%

* Date of commencement of current management arrangements.

** Includes special dividends of 2.83p per share.

*** See definition on page 53. Excludes performance fees.

NAV, Share Price and Benchmark Index 5 year performance graph



Chairman's Statement
for the year ended 31 March 2015

After a strong performance last year, the twelve month period to 31 March 2015 was volatile but ultimately unremarkable for investors in European smaller companies, with the MSCI Europe SmallCap (ex UK) Index ending the year 1.6% higher. Your Company's net asset value ('NAV') per share fared less well, falling by 3.6% over the year to 572.2p per share. The share price declined by 4.6% to 515.0p, representing a discount to the NAV of 10.0% as at 31 March 2015.

It is disappointing that the Company lagged the benchmark for the year, but its longer term performance remains good: since the appointment of Montanaro Asset Management Limited ('Montanaro') in September 2006, the NAV per share has increased by 66% compared with an increase of 57% in the benchmark index, thereby meeting its objective of achieving long-term capital growth. Moreover, while the share prices of some of our investments underperformed the market during the year, their profits did not. The Board has discussed the reasons for the Company's recent underperformance at length with the Manager, and understands the reasons for it. We remain confident in its ability to manage the portfolio successfully and to meet the Company's stated investment objective.

The Euro weakened against Sterling by more than 10% during the year. This caused a reduction of nearly 80p in the NAV per share. Nevertheless this development is not entirely negative. Many of our companies are global market leaders and export their products around the world – the Euro's depreciation has now made them significantly more competitive versus their international peers.

Montanaro has not changed its investment approach over the years and continues to invest in high quality, growing companies run by strong management teams. This is a conservative, long-term strategy that has delivered attractive returns to investors. Portfolio turnover is kept to a minimum. Indeed, of the twenty largest holdings detailed in last year's Annual Report, only one – Vacon – is no longer in the portfolio and only because it was acquired during the year. We firmly believe that this approach will continue to lead to outperformance over the long term.

Earnings and Dividends

Revenue earnings per share for the year were 9.0p (2014: 6.9p). An interim dividend of 1.75p per share was paid on 9 January 2015. The Board recommends the payment of a final dividend of 5.75p per share payable on 27 July 2015 to shareholders on the register on 26 June 2015.

This brings the total dividends for the year to 7.50p per share, an increase of 7.1% on last year and the fourth consecutive year of a dividend increase.

Ongoing charges, expressed as a percentage of net assets, amount to 1.5% for the year. This is unchanged from the previous three years. The Company has benefitted from renegotiating fees payable to the Manager (as disclosed in last year's Annual Report) and the Administrator, saving £108,000 during the year. However, the Company has also been exposed to higher regulatory costs. The Alternative Investment Fund Managers Directive ('AIFMD'), which came into effect in July 2014, required us to appoint an Alternative Investment Fund Manager and a Depositary. As previously disclosed, Montanaro Asset Management Limited and BNY Mellon Trust & Depositary Limited were appointed to these positions. The increased costs arising from these appointments and work generally relating to the implementation of AIFMD was £100,000 for the year and is estimated at £86,000 for the current financial year.

There are more regulatory challenges ahead, including MIFID II (which is currently in draft form), which may increase our regulatory burden further.

As a Board we will continue to seek ways to lower the Company's cost base, but the regulatory headwinds which we are facing are unhelpful in this task.

Borrowings

The Company has a €15 million fixed rate secured loan which matures in September 2018. At the end of the year, the Company had borrowings (net of cash) of 6.8% of net assets compared to 5.4% at the beginning of the year.

Treasury Shares

During the year the Company issued 100,000 shares from treasury at a discount to the NAV per share, in accordance with its stated treasury shares policy which is included on page 20. The Board believes that having the ability to hold shares in treasury for issue in this way provides flexibility in managing the Company's capital base, whilst still providing an enhancement to the NAV per share on the 'round trip' of buying back and re-issuing shares. The Board will seek to renew the Company's share buyback and share issuance authorities at the forthcoming Annual General Meeting.

The Board

The Board consists solely of independent non-executive Directors and we believe we have a good balance of skills, experience, diversity and knowledge of the Company and its business. However, through the Nomination Committee, we have been reviewing our composition and in light of the lengthening tenure of some of the Directors we have decided that a period of Board refreshment is appropriate. We have already started a process to identify potential candidates and hope to make a new appointment later this year with further appointments during the following three years.

Annual General Meeting

The Annual General Meeting will be held on Friday 24 July 2015 at 80 George Street, Edinburgh. The Notice of the Meeting is included on pages 54 to 60. Shareholders are encouraged to attend the Meeting where there will be an opportunity to meet and ask questions of the Board and the Manager. Shareholders who are unable to attend the Meeting are requested to complete the Form of Proxy which is included with the Annual Report and to return this to the Company's Registrar.

Outlook

The combined effects of lower oil prices, a weaker Euro and falling interest rates should be positive for the European economy. There are tentative early signs that Europe has turned the corner and that a recovery is underway. Therefore, conditions are in place for European corporate profitability to surprise on the upside which in turn suggests that a positive year lies ahead for our investors. We expect 2015 to be a constructive year for the shares of European smaller companies, driven by stronger earnings growth than expected. Nevertheless we do note that valuations are no longer categorically cheap.

According to the UK's Investment Association, recent outflows from European smaller company funds exceeded those experienced throughout the whole of the Global Financial Crisis of 2007 and 2008, a sign perhaps that investors have thrown in the towel on this asset class. This augurs well. Historically, periods of capitulation have laid the foundations for a rise in share prices. After a pedestrian year, we look forward to a more rewarding period for investors in this coming year.

A R IRVINE
Chairman
4 June 2015

Manager's Report

"2014/15 was volatile but ultimately neutral for investors in European SmallCap with the MSCI Europe SmallCap (ex UK) Index rising by 1.6% in Sterling terms. In comparison, the Company's NAV decreased by 3.6%."

"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, quoted European smaller companies."

The Attractions of Quoted European Smaller Companies ('SmallCap')

The key attraction of investing in SmallCap is that investors have the opportunity to enjoy higher returns than from investing in large companies ('LargeCap'). If we take the UK SmallCap market as a proxy for Europe (because the data goes back much further), over the past sixty years SmallCap has outperformed LargeCap by an average of 3.4% per annum ("the SmallCap Effect"). As a result, investors have received six times higher returns.

We believe that the SmallCap Effect is more marked in Continental Europe where markets are even less efficient as a result of language, cultural and geographical barriers. In addition, there are many more companies to choose from that are less well researched. Consequently, there are more attractive, undervalued and unrecognised investment opportunities.

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 SmallCap. Our 28 strong team is both multi-lingual and multi-national (with no less than eight nationalities).

At 31 March 2015, Montanaro's funds under management were over €3 billion.

Investment Philosophy and Approach

Montanaro specialises in quoted European SmallCap, with a particular focus on those with a market value below €3 billion.

We generate investment ideas internally. With 4,000 companies to choose from, we can afford to be picky and identify the very best. We focus exclusively on companies that are profitable and comprehensible. These are typically niche franchises with good and experienced management, sound finances, simple business models, good order visibility, high barriers to entry and competitive advantages that provide pricing power. In many cases they are global market leaders.

We visit the companies in which we invest on a regular basis. The track record of executives is examined in detail along with Board structure, the level of insider ownership and the emphasis placed by management on sound corporate governance. Our analysis is structured around our long-term investment philosophy. Hence we seek to understand where a company will be in 5 – 10 years rather than the next few months. We are genuine long-term investors, an increasing rarity these days.

We are conservative investors. We have a number of internal risk controls aimed at limiting our exposure to a particular sector, country or company. At the same time, we actively avoid "hugging the benchmark" and will generally hold between 40 and 60 companies in the portfolio. This means that our performance relative to the benchmark index can fluctuate over the short term. However, over the long term, our fundamental, research driven investment approach focused on the highest quality companies has delivered attractive absolute and relative returns with low risk.

In summary, we invest in well managed, high quality companies in growth markets at sensible valuations. We are long-term investors and keep turnover and transaction costs low. We follow our companies closely over many years. We would rather pay a little more for a higher quality, more predictable company that can be valued with greater certainty. We like to sleep at night as do our investors.

The Portfolio

At 31 March 2015, the portfolio consisted of 50 companies of which the top ten holdings represented 30.6% of the total by value.

Country and sector distribution within the portfolio are 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.

The top three positive contributors during the period under review were VZ Holding, Viscofan and Christian Hansen, all three of which have been held in the portfolio for many years.

VZ Holding (Switzerland) is a wealth manager and financial consultant. It has particular expertise in helping people who are about to retire to structure their finances in a suitable way. During the year, the company continued to see strong client growth as it took share from incumbent private banks due to its reputation for providing an independent and high quality wealth management service at a cost effective price. The company is a "best-in-class" operator in a growing market. Moreover, it is run by its founder who owns the majority of the shares.

Viscofan (Spain) is the world leader in artificial casings for meat products – primarily sausages. During the year the company reported good results and announced the divestment of IAN, its non-core subsidiary which produces tinned vegetables and ready meals. In addition, the weakening of the Euro versus the US Dollar is positive for the company's profitability as nearly 40% of sales are in US Dollars but only 22% of the operating costs. Each 1% appreciation in the US dollar therefore increases earnings by 1.5%. It also has a strong presence in China where it is increasing its market share.

Christian Hansen (Denmark) develops cultures and enzymes to improve the yields and properties of dairy products such as yoghurt and cheese as well as probiotics for the health and nutrition markets and natural colours for food products. The company delivered sound results through the year and investors began to anticipate the margin benefits that the planned capacity expansion would bring. Moreover, there were early signs that US food companies were looking to convert from synthetic to natural colours, which would be an incrementally positive demand driver.

The largest three detractors were Enquest, Kapsch Trafficom and Gameloft.

Enquest (Sweden) is an exploration and production company which focuses on extracting oil from proven fields that are mature or technically difficult in the North Sea. The substantial decline in the oil price, over which they have no control, resulted in a significant fall in the share price. In light of the continued uncertain outlook, we exited our small holding towards the end of the year.

Kapsch Trafficom (Austria) is a leading supplier of electronic road toll systems and other traffic telematics products. This is a growing market and, once toll booths have been built, the cash stream from the installed base is stable and attractive. However, a series of delays, pricing pressure and poor execution issues outweighed these positive factors and called management credibility into question. The departure of the Chief Operating Officer, who had been with the company since it was founded, added to our concerns. We therefore sold the position.

Gameloft (France) is a leading developer of games for smartphones and tablets. The company suffered from a number of headwinds during the year. The most important of these was that fewer games than usual were released. In addition, the company suffered delays in launches as some phone manufacturers changed their approval processes. After meeting management on a number of occasions, we concluded that the issues were temporary. With over 180 million monthly active users, we continue to believe that there is a significant advertising opportunity. Therefore, we increased our investment during the year.

Manager's Report continued

Review

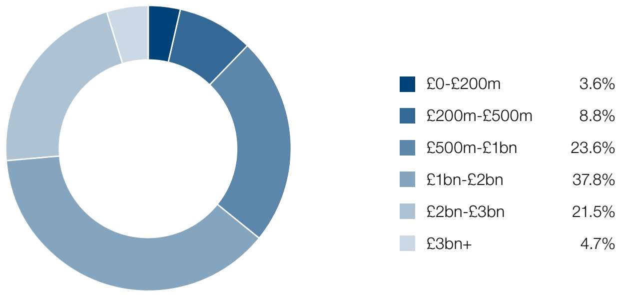
2014/15 was a relatively benign year for investors in European SmallCap, with the MSCI Europe SmallCap (ex UK) Index rising by 1.6% in Sterling terms. However, this figure conceals significant volatility during the year. The benchmark Index registered a peak to trough fall of nearly 20% from April to the middle of October. Subsequently, it recovered to end the year virtually flat in Sterling terms. In Euro terms, the performance was stronger at +16.0%.

Aside from this roller-coaster ride, there were a number of significant macroeconomic events during the year:

- The price of crude oil fell by over 50% in US Dollar terms due to rising supply from North America and statements from Saudi Arabia to the effect that they would not support the oil price but rather would seek to maintain market share;
- The European Central Bank ('ECB') announced that it would engage in Quantitative Easing;
- The Swiss National Bank abandoned its policy to peg the Swiss Franc to the Euro leading to a more than 20% appreciation of the currency;
- The Euro weakened by more than 10% versus Sterling and by more than 20% versus the US Dollar;
- Bond yields across most of Europe continued to decline; in some cases they became negative; and
- There were heightened concerns about the risk of deflation in Europe and the position of Greece within the Eurozone.

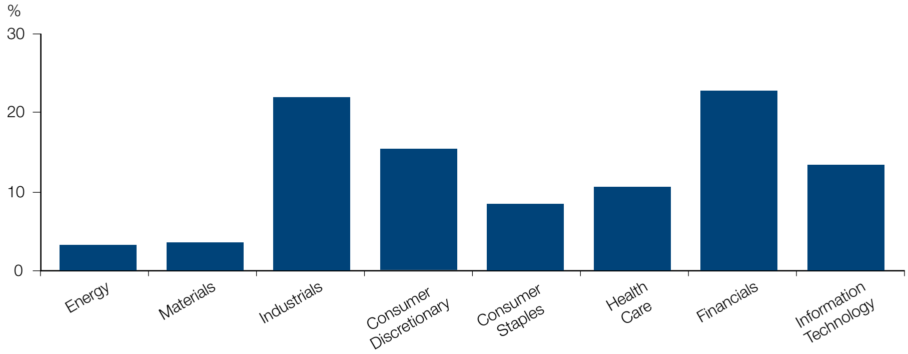
Market participants reacted by reducing risk, moving in to LargeCap and cash to increase liquidity as they took a defensive stance. Indeed, when the MSCI Europe SmallCap (ex UK)

Market Capitalisation of Holdings by Value (31 March 2015)



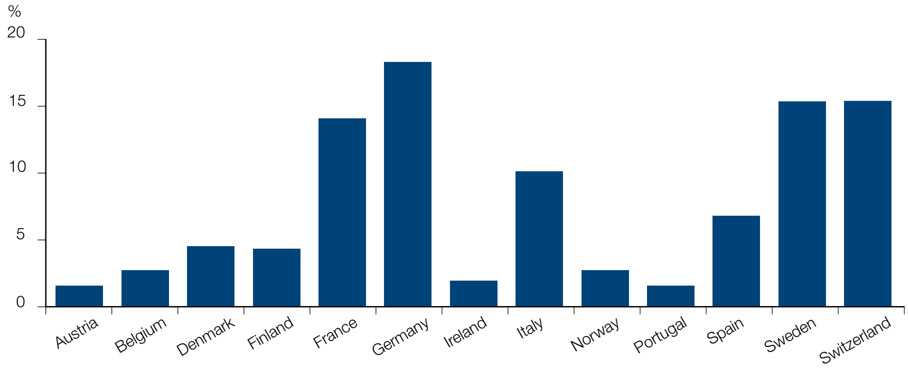
Source: Montanaro Asset Management Limited

Sector Distribution (31 March 2015)



Source: Montanaro Asset Management Limited

Geographical Analysis (31 March 2015)



Source: Montanaro Asset Management Limited

Index reached its lowest point for the year in mid-October, it was accompanied by some of the largest outflows from European SmallCap in history.

In last year's Annual Report, we noted that our high quality investment style had faced headwinds. The most notable of these was that lower quality, "value" stocks significantly outperformed higher quality, growth stocks. It is therefore pleasing to note that these headwinds have been abating in 2015, resulting in stronger relative performance.

Gearing

The Board determines levels of gearing following recommendation from the Manager. The Company ended the fiscal year with gearing of 6.8% (31 March 2014: 5.4%).

Outlook

Last year, we commented that the foundations of the bull market remained intact. In particular, bond yields remain exceptionally low at a time when the outlook for economic growth in Europe is improving. The ECB's actions have been positive for asset prices generally and have achieved the goal of reducing the value of the Euro, notably against the US Dollar. This has made European companies, especially exporters, much more competitive. As a result, in recent weeks a number of our portfolio companies have reported stronger earnings than expected. Consensus forecasts for earnings growth in Europe this year are rising.

Your portfolio consists of exceptional companies that we expect to generate sustainable and growing cash flows over many years. We believe such companies will deliver substantial shareholder value, as they have in the past, irrespective of market trends, cycles or investor sentiment. It is helpful that the European economy is showing signs of recovery and that the outlook for growth appears better than in several years. We look forward to the coming year with confidence.

MONTANARO ASSET MANAGEMENT LIMITED
4 June 2015

Twenty Largest Holdings
as at 31 March 2015

1. CTS Eventim
is the market leading ticketing company in Europe, providing an online platform from which to sell tickets to a range of events such as operas and pop concerts.

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

3. LEM Holding
is the global market leader in transducers, which are used to measure electrical parameters such as current and voltage.

4. VZ Holding
is a Swiss independent financial consultant and wealth manager.

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

6. Viscofan
manufactures artificial casings for food products, primarily sausages.

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

8. Belimo Holding
develops and manufactures electrical motorised control devices (actuators) for air and water. These are predominantly used in large buildings with sophisticated Heating, Ventilation and Air Conditioning ('HVAC') systems.

9. Brembo
manufactures high performance braking systems for cars, commercial vehicles and motorbikes, as well as other motor racing components.

10. 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.

11. Rational
is the global market leader in the field of advanced cooking systems for commercial kitchens.

12. U-Blox
is a global leader in the development of positioning and wireless semiconductors for the consumer goods, industrial and automotive markets. Its products enable people, vehicles and machines to locate their exact position and wirelessly communicate via voice, text or video.

13. Hufvudstaden
is a property company, offering office and retail premises in prime locations in Stockholm and Gothenburg.

14. Azimut
is an independent asset manager based in Italy, which has its own distribution network of financial advisers.

15. De Longhi
develops and manufactures small domestic appliances such as espresso coffee machines and kitchen devices, which it sells under brand names such as De Longhi, Braun, Kenwood and Ariete.

16. JM Group
is a market leading house builder in the Nordic region, with a strong focus on Stockholm in particular.

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

18. Euler Hermes
is the global market leader in the provision of trade-related credit insurance solutions. The company also provides related products such as bonding and credit risk management services.

19. Prosegur
provides a range of security services such as guarding, the transport of cash in armoured vehicles and domestic alarm and fire protection systems. The largest market is in Spain where it has its headquarters and where the Group is a major provider of security guards to businesses, but the key growth markets are in cash and valuables handling in Latin America, particularly Brazil and Argentina.

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 2015 Value £'000**	31 March 2014 Value £'000	31 March 2015 % of portfolio	31 March 2015 Market cap £m
CTS Eventim	Germany	**3,595**	3,375	3.5	2,090
Virbac	France	**3,344**	3,211	3.3	1,384
LEM Holding	Switzerland	**3,334**	3,636	3.3	638
VZ Holding	Switzerland	**3,282**	2,540	3.2	1,046
Avanza	Sweden	**3,122**	3,052	3.0	686
Viscofan	Spain	**3,087**	2,353	3.0	1,938
AF Group	Sweden	**3,006**	3,545	2.9	733
Belimo Holding	Switzerland	**2,927**	3,315	2.9	909
Brembo	Italy	**2,916**	2,399	2.9	1,837
Christian Hansen	Denmark	**2,627**	2,022	2.6	4,092
Rational	Germany	**2,373**	2,241	2.3	2,536
U-Blox	Switzerland	**2,358**	–	2.3	776
Hufvudstaden	Sweden	**2,354**	2,153	2.3	1,986
Azimut	Italy	**2,305**	2,674	2.2	2,756
De Longhi	Italy	**2,263**	2,093	2.2	2,245
JM Group	Sweden	**2,241**	2,848	2.2	1,711
Sartorius	Germany	**2,229**	2,126	2.2	1,651
Euler Hermes	France	**2,143**	1,885	2.1	3,265
Prosegur	Spain	**2,109**	2,119	2.1	2,324
Stratec Biomedical	Germany	**2,095**	1,641	2.0	395
Twenty Largest Holdings		**53,710**		**52.5**	

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

Analysis of Investment Portfolio by Sector
as at 31 March 2015

Sector	% of portfolio
Energy Equipment and Services	3.3
Energy	**3.3**
Chemicals	3.5
Materials	**3.5**
Building Products	2.9
Construction and Engineering	0.9
Machinery	8.1
Commercial Services and Supplies	4.1
Professional Services	4.6
Other	1.5
Industrials	**22.1**
Auto Components	2.9
Household Durables	4.4
Textile Apparel and Luxury Goods	1.7
Media	4.6
Internet and Catalogue Retail	1.9
Consumer Discretionary	**15.5**
Food Products	5.7
Other	2.7
Consumer Staples	**8.4**
Health Care Equipment and Supplies	5.5
Health Care Providers and Services	1.9
Pharmaceuticals	3.3
Health Care	**10.7**
Diversified Financial Services	4.8
Capital Markets	8.5
Insurance	2.1
Real Estate Investment Trusts	1.8
Real Estate Management and Development	5.8
Financials	**23.0**
Software	6.7
Computers and Peripherals	1.2
Electronic Equipment, Instruments and Components	3.3
Semiconductors and Semiconductor Equipment	2.3
Information Technology	**13.5**
Total	**100.0**

Business Model and Strategy

Introduction

The Company carries on business as an investment trust. Its Ordinary Shares are traded on the Main Market of the London Stock Exchange.

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 independent and non-executive, can be found on page 16. The Board consists of four male Directors and one female Director. The Company has no employees.

The Board has contractually delegated the management of the investment portfolio to Montanaro Asset Management Limited ('Montanaro' or the 'Manager'), which was appointed as Investment Manager on 5 September 2006 and the Company's AIFM on 22 July 2014. Established in 1991, Montanaro is a highly experienced specialist investor in UK and Continental European quoted smaller companies. It has one of the largest teams in the UK researching and investing exclusively in quoted European smaller companies and currently manages over €3 billion, mainly on behalf of leading financial institutions.

Investment Strategy

The Company's investment strategy is set out in its objective and investment policy as set out below.

Objective

The Company's objective 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).

Investment Policy

The Company invests principally in quoted smaller companies within the European Union, 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 diffused through holding a range of securities in different countries and industry 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 borrowing, 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 2015 is contained on page 10 and the 20 largest holdings are shown on pages 8 and 9.

Business Model and Strategy continued

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 22 and 23. 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 25.

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 as described in italics. Notes 15 to 20 to the accounts provide detailed explanations of the risks associated with the Company's financial instruments.

External: events such as terrorism, disease, protectionism, inflation or deflation, changes in regulation and 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 timing short-term market fluctuations.

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

Montanaro has one of the largest specialist Continental European smaller companies teams 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, gearing and strategy with the Directors. The Manager also 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 financial 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 stock markets 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.

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 influence 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 25.

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:

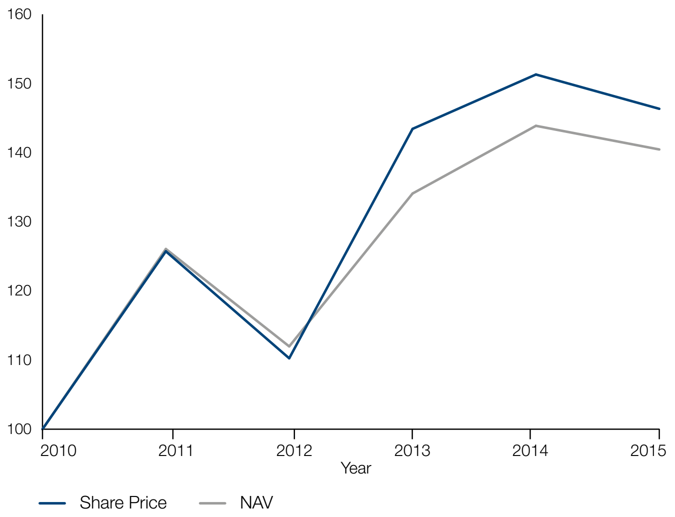
- Total return of the NAV and share price.
- NAV performance against the benchmark index.
- Discount of share price to NAV per share.
- Ongoing charges.

Business Model and Strategy continued

The Company's performance for the year against the key performance indicators, together with the outlook for the coming year, is reported within the Chairman's Statement on pages 2 and 3 and the Manager's Report on pages 4 to 7.

The NAV and share price total returns for the five year period ended 31 March 2015 are shown in the chart below. The NAV performance against the benchmark index for the five year period ended 31 March 2015, the historic discount and ongoing charges figures are included in the Historic Record on page 1.

NAV and Share Price Total Returns (rebased March 2010)



The Chairman's Statement on pages 2 and 3, the Manager's Report on pages 4 to 7, the Twenty Largest Holdings on pages 8 and 9, and the Analysis of Investment Portfolio by Sector on page 10 all form part of this Strategic Report.

By order of the Board

F&C INVESTMENT BUSINESS LIMITED
Company Secretary
80 George Street
Edinburgh EH2 3BU
4 June 2015

Advisers

Alternative Investment Fund Manager ('AIFM') and Investment Manager
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Registrar
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Aspect House
Spencer Road
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Registrar's Shareholder Helpline
Tel: 0871 384 2030*

Registrar's Broker Helpline
Tel: 0906 559 6025

* Calls to this number cost 8p per minute plus network extras.
Lines are open 8.30am to 5.30pm, Monday to Friday.

Stockbroker
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Level 20
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London E14 5RB

Depositary
BNY MELLON TRUST & DEPOSITARY LIMITED
One Canada Square
London E14 5AL

Custodian
THE BANK OF NEW YORK MELLON SA/NV (LONDON BRANCH)
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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 a former Chairman of Celtic Rugby Limited and 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 business experience.

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 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 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.

Report of the Directors

The Directors submit the Annual Report and Accounts of the Company for the year ended 31 March 2015.

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 9 January 2015. The Board recommends a final dividend for the year of 5.75p per Ordinary Share payable on 27 July 2015 to shareholders on the register on 26 June 2015.

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 and has been approved as such by HM Revenue and Customs.

Capital Structure

The Company's capital structure is composed solely of Ordinary Shares. The rights and obligations of shareholders are set out in the Company's Articles of Association ('the Articles') (which can be amended by special resolution). 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/she 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/her 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/her in respect of that share remain unpaid or if he/she is a person with a minimum of 0.25% interest (as defined in the Articles) and he/she 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 dividends as appear to it 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/her 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 minimum of 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).

Directors

Biographical details of the Directors, all of whom are independent and non-executive, can be found on page 16. There were no changes to the composition of the Board during the year.

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.

Report of the Directors continued

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.

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.

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 2015, the Company had received notification of the following substantial holdings of voting rights (being only those received under the Financial Conduct Authority's Disclosure Rules and Transparency Rules):

	Number of shares held	Percentage held
East Riding of Yorkshire Council	1,775,000	10.6
1607 Capital Partners LLC	1,015,000	6.0
Lazard Asset Management LLC	838,512	5.0
Montanaro Asset Management Ltd	600,000	3.5
Jupiter Asset Management Ltd	595,800	3.5

Since 31 March 2015, the Company has received the following notification of voting rights: Wells Capital Management Inc – 1,014,899 Ordinary Shares (6.0%). The Company has not received any other notifications of voting rights since the year end.

Investment Management Arrangements

Montanaro provides investment management services to the Company and was appointed as the Company's AIFM on 22 July 2014. Under the terms of the investment management agreement, Montanaro is entitled to receive a management fee of 0.9% per annum of the Company's market capitalisation (payable monthly in arrears).

With effect from 22 July 2014, Montanaro is also entitled to a fee of £50,000 per annum for acting as the Company's AIFM and during the year ended 31 March 2015 was paid an additional fee of £25,000 in relation to the initial set up costs of this service.

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 appointment. 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 appointment of the Manager on the terms agreed is in the interests of shareholders as a whole.

Corporate Governance

Full details of the Company's corporate governance arrangements are given in the Corporate Governance Statement, which forms part of this Report of the Directors and can be found on pages 22 and 23.

Depositary and Custodian

BNY Mellon Trust & Depositary Limited was appointed as the Company's Depositary on 22 July 2014 in accordance with the AIFM Directive. The Depositary's responsibilities include cash monitoring, segregation and safe keeping of the Company's financial instruments and monitoring the Company's compliance with investment limits and leverage requirements. The Depositary has delegated the custodian function to The Bank of New York Mellon SA/NV (London Branch).

Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions.

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 fixed rate loan 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 11 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 financial covenants relating to its bank borrowings with which it 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, 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 accounts.

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 notes 15 to 20 to the Accounts.

Annual General Meeting

The notice of Annual General Meeting to be held on 24 July 2015 is set out on pages 54 to 60.

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 a 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 £836,663, representing an amount equal to approximately 10% of the Company's total issued ordinary share capital as at 4 June 2015 (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 2016 or, if earlier, on 30 September 2016.

Report of the Directors continued

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 £836,663, representing an amount equal to approximately 10% of the Company's issued ordinary share capital as at 4 June 2015, 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 2016 or, if earlier, on 30 September 2016 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 the 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

The Company did not buy back any Ordinary Shares during the year.

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

The Company issued 100,000 Ordinary Shares from treasury during the year for a net consideration of £488,000. As at 4 June 2015, being the latest practicable date before the publication of the Annual Report and Accounts, there were 17,448,260 Ordinary Shares in issue, including 715,000 Ordinary Shares held in treasury (which represented 4.1% of the total issued ordinary share capital as at 4 June 2015).

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.

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 or herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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.

Statement Regarding Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment trusts in particular.

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
4 June 2015

Corporate Governance Statement

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 February 2013 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 of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012, 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 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. Messrs Irvine, Graham, Hammond-Chambers and Martin 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, Hammond-Chambers and Martin are independent in character and judgement, that they perform their duties at all times in an independent manner and that there are no relationships or circumstances which are likely 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 below sets out the number of scheduled Board and Committee meetings held during the year ended 31 March 2015 and the number of meetings attended by each Director.

	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
R M Martin	4	3	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.

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 the Business Model and Strategy on pages 11 to 14. An investment 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.

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 Report of the Audit Committee is included on pages 24 and 25 and forms part of this statement.

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 diverse balance of relevant skills, experience, independence and knowledge of the business generally and of the Company specifically within the Board, taking advantage, where appropriate, of diversity from gender, race, religion etc. The Directors have not set any measurable objectives in relation to the diversity of the Board.

Relations with Shareholders

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 to meet. The Chairman and other Directors offer to meet with 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 Annual Report and Accounts (which includes the Notice of Annual General Meeting) is sent to shareholders at least 20 working days before the Annual General Meeting.

By order of the Board

F&C INVESTMENT BUSINESS LIMITED
Company Secretary
80 George Street
Edinburgh EH2 3BU
4 June 2015

Report of the 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. The duties of the Audit Committee include: reviewing the annual and interim financial statements; the system of internal controls; and the terms of appointment and remuneration of the Auditor, Ernst & Young LLP ('EY'), including its independence and objectivity.

The Audit Committee met on three occasions during the year including two meetings with EY. The attendance of each of the members is set out on page 22. In the course of its duties, the committee had direct access to EY and the Administrator. Amongst other things, the Audit Committee considered and reviewed the following matters and reported thereon to the Board:

- The annual and half-yearly reports and accounts and interim management statements;
- The accounting policies of the Company;
- The effectiveness of the Company's internal control environment;
- The effectiveness of the audit process and related non-audit services and the independence and objectivity of EY, its re-appointment, remuneration and terms of engagement;
- The policy on the engagement of EY to supply non-audit services;
- The implications of proposed new accounting standards and regulatory changes;
- The receipt of internal control reports from the Manager, Administrator and other service providers; and
- Whether the Annual Report and Accounts is fair, balanced and understandable.

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved EY's plan for the audit of the financial statements for the year ended 31 March 2015. At the conclusion of the audit EY did not highlight any issues to the Audit Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. EY issued an unqualified audit report which is included on pages 29 to 31.

In relation to the provision of non-audit services by the Auditor, it has been agreed that all non-audit work must be approved in advance by the Audit Committee. In addition to statutory audit fees of £19,000 (2014: £19,000), EY received fees for non-audit services of £27,000, for the year (2014: £5,000) which related to the provision of tax compliance and advisory services and advice in relation to the recovery of overseas taxation. The Audit Committee does not consider that the provision of such non-audit services is a threat to the objectivity and independence of the conduct of the audit.

Significant Issues Considered by the Audit Committee in Relation to the Financial Statements

Matter	Action
Investment Portfolio Valuation	
The Company's portfolio is invested in the shares of European quoted smaller companies. Errors in the portfolio valuation could have a material impact on the Company's net asset value per share.	The Board reviews a full portfolio valuation at each Board meeting and, since the implementation of the AIFM Directive in July 2014, receives quarterly reports from the AIFM and the Depositary. The Audit Committee reviewed the Administrator's annual internal control report, which is reported on by independent external accountants, and which details the systems, processes and controls around the daily pricing of securities, including the application of exchanges rate movements.
Misappropriation of Assets	
Misappropriation of the Company's investments or cash balances could have a material impact on its net asset value per share.	The Audit Committee reviewed the Administrator's annual internal control report, as referred to above, which details the controls around the reconciliation of the Administrator's records to those of the custodian. The Audit Committee also reviewed the custodian's annual internal control report, which is reported on by independent external accountants, and which provides details regarding its control environment. As stated above, since the implementation of the AIFM Directive in July 2014, the Board receives quarterly reports from the AIFM and the Depositary.

As part of the review of auditor independence and effectiveness, EY has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating EY, the Audit Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The appointment has not been put out to tender notwithstanding EY's tenure over many years as the Audit Committee, from direct observation and enquiry of the Administrators, remains satisfied that EY continues to provide effective independent challenge in carrying out its responsibilities. Following professional guidelines, the audit partner rotates after five years. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

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 ("Internal Control: Revised Guidance for Directors on the Combined Code").

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. Montanaro is also the Company's AIFM and in this capacity provides a quarterly report to the Board.
- F&C Investment Business Limited ('FCIB' or the 'Administrator') 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.
- The Bank of New York Mellon SA/NV (London Branch) 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.
- BNY Mellon Trust & Depositary Limited was appointed as the Company's Depositary on 22 July 2014 and provides quarterly reports to the Board and carries out daily independent checks on all cash and investment transactions.

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.

R B M Graham
Chairman of the Audit Committee
4 June 2015

Directors' Remuneration Report

The Board consists solely of independent non-executive Directors. The Company has no executive Directors or employees. The level of Directors' fees is determined by the Remuneration Committee within the limits defined in the Articles of Association and approved by shareholders.

Full details of the Company's policy with regards to Directors' fees, and fees paid during the year ended 31 March 2015, are shown below. No major decisions or substantial changes relating to Directors' remuneration were made during the year.

Under company law, the Auditor is required to audit certain disclosures provided. Where disclosures have been audited they are indicated as such. The Auditor's opinion is included in its report on pages 29 to 31.

Remuneration Committee

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 determine the level of Directors' fees.

Directors' Remuneration Policy

The Company's policy is to remunerate non-executive Directors exclusively by fixed fees in cash at a rate which should reflect the responsibilities of being a non-executive Director, including the potential liabilities associated with the position, and the time committed by them to these responsibilities including, where appropriate, Board committee duties. There were no changes to the policy during the year.

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 and may not be changed without seeking shareholder approval at a general meeting. There is no performance related remuneration scheme and therefore non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors do not have service contracts, but new Directors are provided with a letter of appointment. These letters of appointment are available for inspection at the Company's registered office. The terms of Directors' appointments provide that they should retire and be subject to election at the first Annual General Meeting after their appointment. Under the terms of the Company's Articles of Association, 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 and, if appropriate, seek re-election. There is no notice period and no provision for compensation upon early termination of appointment.

The Company has not received any views from its shareholders in respect of the levels of Directors' remuneration.

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 3 July 2014, shareholders approved the Directors' Remuneration Policy. 99.5% of votes were in favour of the resolution and 0.5% of votes were against. It is the Board's intention that the Directors' Remuneration Policy will be put to a shareholder vote again at the Annual General Meeting in 2017.

Annual Report on Directors' Remuneration

Directors' Emoluments for the Year (audited)

The Directors who served during the financial year received the following emoluments in the form of fees. No other forms of remuneration were paid during the year.

	2015 £	2014 £
A R Irvine (Chairman)	**28,500**	28,500
R B M Graham (Chairman of the Audit Committee)	**23,000**	23,000
R A Hammond-Chambers*	**19,000**	19,000
R M Martin	**19,000**	19,000
M R Somerset Webb	**19,000**	19,000
Total	**108,500**	108,500

* Includes fees of £13,000 (2014: £13,000) paid to Alex Hammond-Chambers and Company.

Relative Importance of Spend on Pay

As the Company has no employees, the table above represents the total remuneration costs and benefits paid by the Company. To enable shareholders to assess the relative importance of spend on Directors' remuneration, the table below shows the actual expenditure during the year in relation to Directors' remuneration, other operating expenses and shareholder distributions:

	2015 £	2014 £	Change %
Aggregate Directors' Remuneration	**108,500**	108,500	–
Management and other operating expenses*	**1,379,000**	1,366,000	+1.0
Dividends paid to shareholders	**1,164,000**	1,123,000	+3.7

* Includes Directors' remuneration.

Directors' Shareholdings (audited)

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

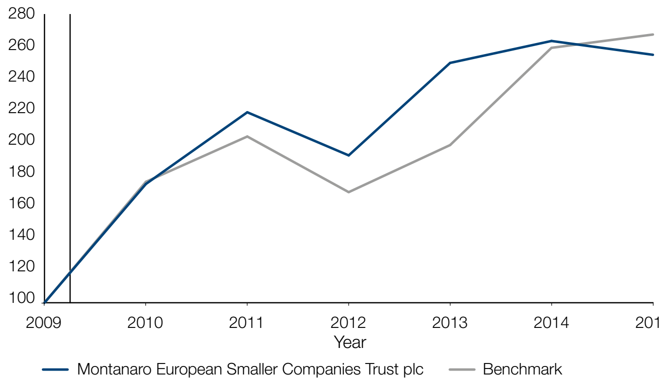
		2015 Ordinary Shares	2014 Ordinary Shares
A R Irvine	Beneficial	**65,000**	60,000
R B M Graham	Beneficial	**34,600**	34,600
R A Hammond-Chambers	Beneficial	**22,500**	17,500
R M Martin	Beneficial	**11,000**	11,000
M R Somerset Webb	Beneficial	**3,802**	3,802

There have been no changes in the Directors' interests in the shares of the Company between 31 March 2015 and 4 June 2015.

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 Montanaro 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 six financial years ended 31 March 2015, 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 2015 is given in the Chairman's Statement and the Manager's Report.

Total Return vs Benchmark* (rebased from March 2009)



* 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.

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 3 July 2014, shareholders approved the Annual Report on Directors' Remuneration for the year ended 31 March 2014. 99.5% of votes were in favour of the resolution and 0.5% were against.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

M R SOMERSET WEBB
Director
4 June 2015

Management Report and Directors' Responsibilities Statement

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), the Business Model and Strategy (pages 11 to 14) and the Report of the Directors (pages 17 to 21). Therefore a separate management report has not been included.

Statement of Directors' Responsibilities in Relation to the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those international Financial Reporting Standards as adopted by the European Union. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement.

Under company law the Directors must not approve the financial statements unless they are satisfied that they present a fair, balanced and understandable report and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the 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 Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the 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 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 Company; and
- the Business Model and Strategy includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

A R IRVINE
Director
4 June 2015

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MONTANARO EUROPEAN SMALLER COMPANIES TRUST PLC

Our Audit Opinion on the Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the financial statements have been properly prepared in accordance with IFRSs 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.

Our Audit Opinion on 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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on page 25 in the Report of the Audit Committee with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

What We Have Audited

We have audited the financial statements of Montanaro European Smaller Companies Trust plc for the year ended 31 March 2015 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, 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 Directors' Responsibilities Statement set out on page 28 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.

The 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 applied are appropriate to the 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 and to identify any information that is apparently materially incorrect based on or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our Assessment of Risks of Material Misstatement and Our Audit Response

The risks included in the table overleaf represent those material risks of misstatement that have had the greatest impact on our audit strategy and approach for the year ended 31 March 2015 (including the allocation of resources and the directing of efforts of the engagement team). The table also includes our audit response to each of these risks:

Independent Auditor's Report continued

Risk Identified	Our Response
The valuation of the assets held in the investment portfolio is incorrect and proper legal title to these assets is not held by the Company.	• We agreed the year end prices of the investments to an independent source. • We agreed the number of shares held in each security to a confirmation of legal title received from both the Company's custodian and its depositary.

Our Application of Materiality

We have defined the concept of materiality and planning materiality below.

We determined materiality for the Company to be £958,000, which is one per cent of total equity (2014: £987,000 based on one per cent of total equity). We have derived our materiality calculation based on a proportion of total equity as we consider it to be the most important financial metric on which shareholders would judge the performance of the Company.

We determined performance materiality for the Company to be 75% of materiality, or £719,000 (2014: £740,000). In addition, we agreed with the Audit Committee that we would report any audit differences in excess of £48,000 (2014: £49,000), as well as any differences below that threshold that, in our view, warranted reporting on qualitative grounds.

In accordance with the scope of our audit, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply the concept of materiality for the purposes of obtaining sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. For this reason, we also define a separate performance materiality threshold which reflects our tolerance for misstatement in an individual account balance and is set as a proportion of our overall materiality.

Our objective in setting the performance materiality threshold is to identify the amount of testing required in respect of each balance to reduce to an appropriately low level the probability that the aggregate of any uncorrected and undetected misstatements in the financial statements as a whole exceeds our materiality level.

We evaluate any uncorrected misstatements and potential audit differences against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

We applied the concept of materiality in planning and performing our audit, in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements on the financial statements, and in forming our audit opinion. When establishing our overall audit strategy, we determined the magnitude of omissions or uncorrected misstatements that we judged would be material to the financial statements as a whole. This provided a basis for determining the nature of our risk assessment procedures, identifying and assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

Matters on Which we are Required to Report by Exception

We are required by the ISAs (UK and Ireland), the Companies Act 2006 and the Listing Rules to report to you by exception if certain matters are identified during the course of our audit. These matters are listed below and we have nothing to report in respect of any of these matters.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 page 19, in relation to going concern; and
- 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.

ASHLEY COUPS
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP,
Statutory Auditor
London
4 June 2015

Statement of Comprehensive Income

for the year ended 31 March 2015

	Notes	**2015 Revenue £'000**	**2015 Capital £'000**	**2015 Total £'000**	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Capital (losses)/gains on investments							
(Losses)/gains on investments held at fair value	9	**–**	**(3,511)**	**(3,511)**	–	6,321	6,321
Exchange gains		**–**	**505**	**505**	–	142	142
		–	**(3,006)**	**(3,006)**	–	6,463	6,463
Revenue							
Investment income	2	**2,522**	**–**	**2,522**	2,317	–	2,317
Other operating income	2	**1**	**–**	**1**	1	–	1
Total income		**2,523**	**(3,006)**	**(483)**	2,318	6,463	8,781
Expenditure							
Management expenses	3	**(277)**	**(514)**	**(791)**	(294)	(545)	(839)
Other expenses	4	**(588)**	**–**	**(588)**	(527)	–	(527)
Total expenditure		**(865)**	**(514)**	**(1,379)**	(821)	(545)	(1,366)
Profit/(loss) before finance costs and taxation		**1,658**	**(3,520)**	**(1,862)**	1,497	5,918	7,415
Finance costs	5	**(124)**	**(230)**	**(354)**	(140)	(260)	(400)
Profit/(loss) before taxation		**1,534**	**(3,750)**	**(2,216)**	1,357	5,658	7,015
Taxation	6	**(40)**	**–**	**(40)**	(218)	–	(218)
Total comprehensive income		**1,494**	**(3,750)**	**(2,256)**	1,139	5,658	6,797
Return per share	8	**9.0p**	**(22.5)p**	**(13.5)p**	6.9p	34.0p	40.9p

The total column of this statement represents the Company's Income Statement and Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

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

No operations were acquired or discontinued 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 Sheet
as at 31 March 2015

	Notes	2015 £'000	2014 £'000
Non-current assets			
Investments held at fair value through profit and loss	9	**102,239**	104,060
Current assets			
Trade and other receivables	10	**592**	295
Cash and cash equivalents	10	**3,876**	7,871
		4,468	8,166
Total assets		**106,707**	112,226
Current liabilities			
Trade and other payables	11	**(179)**	(1,239)
Non-current liabilities			
Interest-bearing bank loan	12	**(10,777)**	(12,304)
Total liabilities		**(10,956)**	(13,543)
Net assets		**95,751**	98,683
Capital and reserves			
Called-up share capital	13	**8,724**	8,724
Share premium account		**5,283**	5,178
Capital redemption reserve		**2,212**	2,212
Capital reserve		**76,228**	79,595
Revenue reserve		**3,304**	2,974
Shareholders' funds		**95,751**	98,683
Net asset value per share	14	**572.2p**	593.3p

The financial statements on pages 32 to 50 were approved by the Board of Directors and authorised for issue on 4 June 2015 and signed on its behalf by:

A R IRVINE
Director

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

Statement of Changes in Equity
for the year ended 31 March 2015

	Notes	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 1 April 2014		8,724	5,178	2,212	79,595	2,974	98,683
Total comprehensive income		–	–	–	(3,750)	1,494	(2,256)
Shares issued out of treasury		–	105	–	383	–	488
Dividends paid	7	–	–	–	–	(1,164)	(1,164)
Balance at 31 March 2015		**8,724**	**5,283**	**2,212**	**76,228**	**3,304**	**95,751**

	Notes	Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
Balance at 1 April 2013		8,724	5,178	2,212	73,937	2,958	93,009
Total comprehensive income		–	–	–	5,658	1,139	6,797
Dividends paid	7	–	–	–	–	(1,123)	(1,123)
Balance at 31 March 2014		**8,724**	**5,178**	**2,212**	**79,595**	**2,974**	**98,683**

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

Cash Flow Statement
for the year ended 31 March 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
(Loss)/profit before finance costs and taxation		**(1,862)**	7,415
Investment losses/(gains)		**3,511**	(6,321)
Withholding tax		**(328)**	(239)
Exchange gains		**(505)**	(142)
(Increase)/decrease in receivables		**(8)**	156
Decrease in payables		**(63)**	(37)
Purchases of investments		**(24,338)**	(21,893)
Sales of investments		**21,651**	19,511
Net cash outflow from operating activities		**(1,942)**	(1,550)
Cash flows from financing activities			
Dividends paid	7	**(1,164)**	(1,123)
Interest paid		**(333)**	(505)
Shares issued out of treasury		**488**	–
Net cash outflow from financing activities		**(1,009)**	(1,628)
Net decrease in cash and cash equivalents		**(2,951)**	(3,178)
Exchange losses		**(1,044)**	(142)
Decrease in cash and cash equivalents		**(3,995)**	(3,320)
Cash and cash equivalents at beginning of year		**7,871**	11,191
Cash and cash equivalents at end of year	10	**3,876**	7,871

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

Notes to the Accounts
for the year ended 31 March 2015

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

BASIS OF ACCOUNTING
The financial statements of the Company 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 which the Board review, 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 Company at the year end have been derived from active, liquid markets. Risks relating to the valuations are disclosed in note 16.

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, except that the following new standards have been adopted in the current year:

- 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 relating 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 interests in subsidiaries, joint arrangements, associates and structured entities. The Company concluded that this has no significant impact on the Company disclosures presented.
- In October 2012, the IASB issued amendments to IFRS 12 *'Disclosure of Interests in Other Entities'* and IAS 27 *'Separate Financial Statements'* – Investment Entities. The amendments introduced new disclosure requirements for investment entities in IFRS 12 and IAS 27. The Company concluded that this has no significant impact on the disclosures presented.

1 Accounting Policies continued

The following new standard has been issued but is not effective for this accounting period and has not been adopted early:

- In July 2014, the IASB issued the final version of IFRS 9 *'Financial Instruments'* which reflects all phases of the financial instruments project and replaces IAS 39 *'Financial Instruments: Recognition and Measurement'* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is unlikely to have a material effect on the classification and measurement of the Company's financial assets or financial liabilities.

The Company 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.

OPERATING SEGMENTS

The Board has considered the requirements of IFRS 8 '*Operating Segments*'. The Board is of the view that the Company is engaged in a single segment of business, of investing in European quoted smaller companies, and that therefore the Company 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 Company. The key measure of performance used by the Board to assess the Company's performance is the total return on the Company'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.

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 Company's right to receive payment is established.

Where the Company 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.

Notes to the Accounts continued
for the year ended 31 March 2015

1 Accounting Policies continued

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 Company'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.

– management fees payable are allocated 35% to revenue and 65% 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 and withholding tax payable. 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 Company'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 paid. Investments are classified as fair value through profit or loss. As the Company'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 Company 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.

1 Accounting Policies continued

Where securities are designated upon initial recognition as fair value through profit or loss, gains and losses arising from changes in fair value and investment realisations are included in the net profit or loss for the period as a capital item.

All investments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy in note 15, described as follows, based on the lowest significant applicable input:

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.

For investments that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest significant applicable input) at the date of the event that caused the transfer.

CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and short-term 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.

INTEREST-BEARING BORROWINGS

All non-current borrowings are initially recognised at cost, being fair value of the consideration received. After initial recognition, all interest-bearing borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs.

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 2015

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 Company when the Company becomes a party to the contractual provisions of the instrument. The Company 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 (per Pound Sterling)	**31 March 2015**	31 March 2014
Danish Krone	**10.33**	9.03
Euro	**1.38**	1.21
Norwegian Krone	**11.96**	9.98
Swedish Krona	**12.80**	10.81
Swiss Franc	**1.44**	1.47

2 Income

	2015 £'000	2014 £'000
Investment income		
Overseas dividend income	**2,522**	2,317
	2,522	2,317
Other operating income		
Deposit interest	**1**	1
Total	**2,523**	2,318

3 Management Expenses

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Investment management fee	**256**	**475**	**731**	294	545	839
AIFM fee	**21**	**39**	**60**	–	–	–
	277	**514**	**791**	294	545	839

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

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Director's fees	**109**	**–**	**109**	109	–	109
Auditor's remuneration for:						
– statutory audit	**19**	**–**	**19**	19	–	19
– tax compliance services	**6**	**–**	**6**	5	–	5
– tax advisory services	**21**	**–**	**21**	–	–	–
Secretarial and administration fees	**125**	**–**	**125**	152	–	152
Legal, professional and advisory fees	**75**	**–**	**75**	62	–	62
Custody and Depositary fees	**71**	**–**	**71**	21	–	21
Other	**162**	**–**	**162**	159	–	159
	588	**–**	**588**	527	–	527

5 Finance Costs

	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Interest payable on bank borrowings	**124**	**230**	**354**	140	260	400

Notes to the Accounts continued
for the year ended 31 March 2015

6 Taxation

	2015 Revenue £'000	**2015 Capital £'000**	**2015 Total £'000**	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000
Overseas tax	**40**	**–**	**40**	218	–	218

As at 31 March 2015, the Company had unutilised management expenses for taxation purposes of £18,841,000 (2014: £17,112,000). A deferred tax asset of £3,768,000 (2014: £3,594,000) 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:

	2015 £'000	2014 £'000
(Loss)/profit on ordinary activities before taxation	**(2,216)**	7,015
Corporation tax at standard rate of 21% (2014: 23%)	**(465)**	1,613
Effects of:		
Non-taxable losses/(gains) on investments	**737**	(1,454)
Movement in unutilised expenses	**364**	407
Non-taxable overseas income	**(530)**	(533)
Exchange gains	**(106)**	(33)
Overseas tax	**218**	218
Adjustment to provision for prior years	**(178)**	–
Total tax charge for the year	**40**	218

7 Dividends

	2015 £'000	2014 £'000
Final dividend for the year ended 31 March 2013 of 5.00p per share	**–**	832
Interim dividend for the year ended 31 March 2014 of 1.75p per share	**–**	291
Final dividend for the year ended 31 March 2014 of 5.25p per share	**873**	–
Interim dividend for the year ended 31 March 2015 of 1.75p per share	**291**	–
	1,164	1,123

Amounts relating to the year but not paid at the year end:		
Final dividend for the year ended 31 March 2014 of 5.25p per share	**–**	873
Final dividend for the year ended 31 March 2015 of 5.75p per share	**962**	–
	962	873

8 Return Per Share

	2015 Revenue	2015 Capital	2015 Total	2014 Revenue	2014 Capital	2014 Total
Basic	**9.0p**	**(22.5)p**	**(13.5)p**	6.9p	34.0p	40.9p

Basic total return per Ordinary Share is based on the total comprehensive income for the financial year of negative £2,256,000 (2014: positive £6,797,000) and on 16,646,137 (2014: 16,633,260) 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 £1,494,000 (2014: £1,139,000), and on 16,646,137 (2014: 16,633,260) 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 negative £3,750,000 (2014: positive £5,658,000), and on 16,646,137 (2014: 16,633,260) 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

	2015 £'000	2014 £'000
Opening cost	**76,280**	68,368
Holding gains	**27,780**	25,992
Opening fair value	**104,060**	94,360
Purchases at cost	**23,341**	22,890
Sales – proceeds	**(21,651)**	(19,511)
– (losses)/gains on sales	**(1,976)**	4,533
Holding (losses)/gains	**(1,535)**	1,788
Closing fair value	**102,239**	104,060
Closing cost	**75,994**	76,280
Holding gains	**26,245**	27,780
Closing valuation	**102,239**	104,060

Net losses/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 2015 compared with the difference between the book cost of investments held and their market value at 31 March 2014.

Notes to the Accounts continued

for the year ended 31 March 2015

9 Investments at Fair Value Through Profit and Loss continued

TRANSACTION COSTS

The Company incurred transaction costs on the purchase of investments of £30,000 and sale of investments of £17,000 (2014: £32,000 on purchases and £19,000 on sales).

	2015 £'000	2014 £'000
(Losses)/gains on sales	**(1,976)**	4,533
(Decrease)/increase in holding gains	**(1,535)**	1,788
(Losses)/gains on investments held at fair value	**(3,511)**	6,321

10 Current Assets

	2015 £'000	2014 £'000
Prepayments and accrued income	**150**	142
Overseas tax recoverable	**442**	153
	592	295

The carrying value of the balances above approximates to fair value. There are no amounts which are past, due or impaired at the year end (2014: £nil).

CASH AND CASH EQUIVALENTS

These comprise bank balances and cash held by the Company 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.

	2015 £'000	2014 £'000
Cash at bank and on hand	**3,876**	125
Short-term deposits	**–**	7,746
	3,876	7,871

11 Current Liabilities

	2015 £'000	2014 £'000
Amounts due to brokers	**–**	997
Other creditors	**179**	242
	179	1,239

12 Interest-Bearing Bank Loan

	2015 £'000	2014 £'000
Principal amount outstanding	**10,852**	12,401
Set-up costs	**(109)**	(109)
Accumulated amortisation of set-up costs	**34**	12
	10,777	12,304

On 11 September 2013, the Company entered into a five year secured €15 million loan at a fixed rate of 2.90% per annum. Its Sterling equivalent value was £10,852,000 as at 31 March 2015 (2014: £12,401,000).

Under the bank covenants relating to the loan, 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 fair value of the fixed rate €15 million term loan (based on indicative break costs), on a marked to market basis, was £11,476,000 at 31 March 2015 (2014: £12,888,000).

13 Share Capital

	2015 £'000	2014 £'000
Issued and fully paid:		
17,448,260 Ordinary Shares of 50p each at 31 March 2015 (2014: 17,448,260)	**8,724**	8,724

During the year the Company sold 100,000 Ordinary Shares (2014: nil) out of treasury for a consideration of £488,000 (2014: £nil). The gain arising on the sale of shares from treasury is £105,000 and is credited to the share premium account.

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

	2015	2014
As at 1 April	**815,000**	815,000
Sold during the year	**(100,000)**	–
As at 31 March	**715,000**	815,000

CAPITAL MANAGEMENT

The Company'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 Company's capital is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Business Model and Strategy.

Notes to the Accounts continued
for the year ended 31 March 2015

14 Net Asset Value per Ordinary Share

	Net asset value per share		Net asset value	
	2015 **p**	2014 p	**2015** **£'000**	2014 £'000
Net asset value per Ordinary Share	**572.2**	593.3	**95,751**	98,683

The net asset value per share is based on net assets at the year end and on 16,733,260 (2014: 16,633,260) Ordinary Shares, being the number of Ordinary Shares in issue at the year end, excluding those shares bought back and held in treasury.

15 Financial Instruments

The Company'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 Company makes use of borrowings, as detailed in note 12 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.

The Company's principal risks are described in the Business Model and Strategy on pages 11 to 14.

Financial risks arising from the Company'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 accrued 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 Company; and

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

FAIR VALUE HIERARCHY

IFRS 13 requires disclosures relating to fair value measurements using a three-level hierarchy (see definitions on page 39). The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

15 Financial Instruments continued

The Company held the following categories of financial instruments as at 31 March 2015:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2015 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2014 £'000
Financial instruments								
Investments	**102,239**	**–**	**–**	**102,239**	104,060	–	–	104,060
Loan	**–**	**(11,476)**	**–**	**(11,476)**	–	(12,888)	–	(12,888)

There were no transfers between levels in the fair value hierarchy in the year ended 31 March 2015 (2014: none).

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 interest-bearing bank loan is recognised in the Balance Sheet in accordance with IFRS. The fair value of the loan is based on indicative break costs compared to its value as stated on the Balance Sheet at amortised cost of £10,777,000 (2014: £12,304,000). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 33.

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% (2014: 10%) at 31 March 2015, the impact on the profit or loss and the net asset value would have been negative £10.2 million (2014: negative £10.4 million). If the investment portfolio valuation had risen by 10% (2014: 10%) at 31 March 2015, the impact on the profit or loss and the net asset value would have been positive £10.2 million (2014: positive £10.4 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.

Notes to the Accounts continued
for the year ended 31 March 2015

17 Interest Rate Risk
FIXED RATE
The Company has a fully drawn €15 million fixed rate term loan with ING Bank N.V., with a Sterling equivalent of £10.9 million as at 31 March 2015 (2014: £12.4 million), at a rate of interest of 2.90% per annum.

FLOATING RATE
When the Company retains cash balances, the majority of the cash is held in deposit accounts. As at 31 March 2015, the cash position of the Company was £3.9 million (2014: £7.9 million).

If interest rates had increased by 1.0%, the impact on the profit or loss and the net asset value would have been positive £39,000 (2014: positive £79,000). If interest rates had decreased by 1.0%, the impact on the profit or loss and the net asset value would have been negative £39,000 (2014: negative £79,000). The calculations are based on the floating rate balances as at the respective balance sheet dates and are not representative of the year as a whole.

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

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

Foreign currency exposure:

	2015 Investments £'000	**2015 Cash £'000**	**2015 Loans £'000**	2014 Investments £'000	2014 Cash £'000	2014 Loans £'000
Danish Krone	**4,609**	**–**	**–**	3,115	–	–
Euro	**63,183**	**3,806**	**(10,852)**	66,671	7,751	(12,401)
Norwegian Krone	**2,735**	**–**	**–**	2,293	–	–
Swedish Krona	**15,825**	**–**	**–**	19,020	62	–
Swiss Franc	**15,887**	**–**	**–**	12,961	–	–
Total	**102,239**	**3,806**	**(10,852)**	104,060	7,813	(12,401)

In addition, the following currency amounts are included within current assets as at 31 March 2015: overseas tax reclaim in Euros of £178,000 and also dividends receivable in Euros of £90,000 and Swedish Krona of £55,000. As at 31 March 2014, the Company had dividends receivable in Euros of £136,000.

As at 31 March 2015, the Company had loan interest payable in Euros of £17,000 included within current liabilities (2014: £18,000).

If the value of Sterling had weakened by 5% (2014: 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 £5,010,000 (2014: positive £5,235,000). If the value of Sterling had strengthened by 5% (2014: 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 £4,533,000 (2014: negative £4,737,000). These calculations are based on cash, loan and investment 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 Company. The Company 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 Company had the following categories of financial assets exposed to credit risk as at 31 March 2015:

	2015 £'000	2014 £'000
Cash and cash equivalents	**3,876**	7,871
Prepayments and accrued income and overseas tax recoverable	**592**	295
	4,468	8,166

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 2015 or 31 March 2014. No individual investment exceeded 3.5% of the investment portfolio at 31 March 2015 (2014: 3.5%).

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 The Bank of New York Mellon SA/NV (London Branch), 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 Company does not hold unlisted securities (2014: £nil). The Company'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 Company 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.

Notes to the Accounts continued

for the year ended 31 March 2015

20 Liquidity Risk continued

CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

As at 31 March 2015	**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	**87**	**77**	**–**	**–**	**–**	**164**
Non-current liabilities:						
Interest-bearing bank loan	**–**	**–**	**336**	**11,634**	**–**	**11,970**
Total liabilities	**87**	**77**	**336**	**11,634**	**–**	**12,134**

As at 31 March 2014	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	1,147	74	–	–	–	1,221
Non-current liabilities:						
Interest-bearing bank loan	–	–	383	13,565	–	13,948
Total liabilities	1,147	74	383	13,565	–	15,169

21 Alternative Investment Fund Managers ('AIFM') Directive ('AIFMD')

In accordance with the AIFMD, information in relation to the Company's leverage and the remuneration of the Company's AIFM, Montanaro Asset Management Limited, is required to be made available to investors. In accordance with the AIFMD, the AIFM's remuneration policy and the numerical remuneration disclosures in relation to the AIFM's first relevant accounting period are available from Montanaro Asset Management Limited on request. The Company's maximum and average actual leverage levels at 31 March 2015 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	118%	123%

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Company's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Company's positions after deduction of cash and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash and cash equivalents and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings. Detailed regulatory disclosures to investors in accordance with the AIFMD are contained on the AIFM's website.

22 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 pages 26 and 27.

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 24 July 2015 at 12.30pm.

Key Dates

31 March 2015	Company year end
24 July 2015	Annual General Meeting
27 July 2015	Payment of final dividend
November 2015	Interim results announced
January 2016	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 15.

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

If you receive unsolicited investment advice or requests:

- Check the Financial Services Register at **www.fca.org.uk** to see if the person or firm contacting you is authorised by the Financial Conduct Authority ('FCA').
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams.**
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice.

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

Glossary of Terms

AIFMD
Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Investment Trusts, must, with effect from 22 July 2014, appoint a Depositary and an Alternative Investment Fund Manager (**AIFM**). The Board of Directors of an Investment Trust, nevertheless, remains fully responsible for all aspects of the Company's strategy, operations and compliance with regulations.

Association of Investment Companies ('AIC')
The Association of Investment Companies is the trade body for Closed-end Investment Companies (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). The index averages the performance of a defined selection of companies listed in European smaller company stock markets and gives an indication of how those markets have performed in any period.

Closed-end Investment Company
A company, including an Investment Trust, with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the Net Asset Value of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the Net Asset Value.

Custodian
A specialised financial institution responsible for safeguarding, worldwide, the listed securities and certain cash assets of the Company, as well as the income arising therefrom, through provision of custodial, settlement and associated services. The Company's Custodian is The Bank of New York Mellon SA/NV (London Branch).

Depositary
Under AIFMD rules applying from 22 July 2014, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary has strict liability for loss of any investments or other assets where it has safekeeping duties. The Depositary's oversight duties include, but are not limited to, oversight of share buy backs, dividend payments and adherence to investment limits. The Company's Depositary is BNY Mellon Trust & Depositary Limited.

Discount (or Premium)
If the share price of an Investment Trust is less than its Net Asset Value per share, the shares are trading at a discount. If the share price is greater than the Net Asset Value per share, the shares are trading at a premium.

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, 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.

IFRS
International Financial Reporting Standards as adopted by the European Union.

Investment Trust
A Closed-end 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.

Leverage
As defined under the AIFMD rules, Leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowings). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash and cash equivalents and after certain hedging and netting positions are offset against each other.

Manager
The Company's investment manager, which is Montanaro Asset Management Limited. The responsibilities and remuneration of the Manager are set out in the Business Model and Strategy on page 11 and in the Report of the Directors on pages 18 and 19.

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 (or Shareholders' Funds)
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
All operating costs expected to be incurred in future and that are payable by the Company expressed as a proportion of the average Net Assets of the Company over the reporting year. The costs of buying and selling investments are excluded, as are interest costs, taxation, non-recurring costs and the costs of buying back or issuing Ordinary Shares.

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.

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.

SORP
Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the AIC.

Total Assets
This is calculated as the value of the investments and other assets of an Investment Trust, plus cash and debtors.

Total Return
The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been re-invested in the form of Shares or Net Assets.

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 Friday 24 July 2015 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 and 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 2015 be received.

RESOLUTION 2 – ANNUAL REPORT ON DIRECTORS' REMUNERATION

That the Report on Directors' Remuneration for the year ended 31 March 2015 be approved.

RESOLUTION 3 – FINAL DIVIDEND

That a final dividend of 5.75p 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 £836,663, provided that this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2016 or, if earlier, on 30 September 2016 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 24 July 2015 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 £836,663,

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 2016 or, if earlier, on 30 September 2016 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 2,508,315 (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 2016 or, if earlier, on 30 September 2016 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
4 June 2015

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 plus network extras. 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 FREEPOST RTHJ-CLLL-KBKU, Equiniti, Aspect House, Spencer Road, Lancing, BN99 8LU 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 plus network extras. Lines are open from 8.30am to 5.30pm, Monday to Friday. If calling from overseas please call +44 121 415 7047.

Notice of Annual General Meeting continued

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 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.

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 22 July 2015 (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 4 June 2015 (being the latest practicable date prior to the publication of this notice) the Company had 17,448,260 Ordinary Shares in issue, including 715,000 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 4 June 2015 were 16,733,260 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.

Notice of Annual General Meeting continued

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.

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