



MONTANARO

European Smaller Companies Trust plc

Interim Report 2011

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

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

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

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Highlights

for the six months ended 30 September 2011

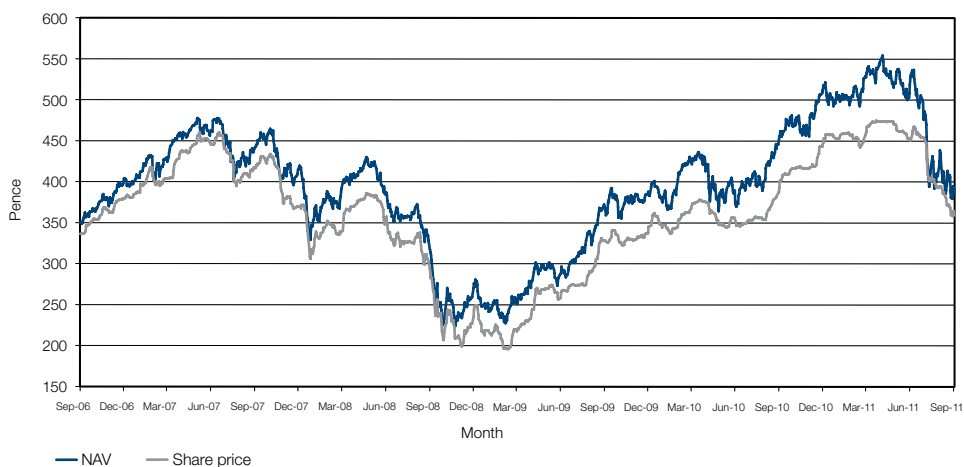
Results

- > Share price -23.0%
- > Net asset value ('NAV') per Ordinary Share -27.9%
- > Benchmark index -28.1%
- > Total assets -21.3% (£80.7 million)

	As at 30 September 2011	As at 31 March 2011
Net assets ('000s)	£67,377	£88,837
NAV per Ordinary Share	386.2p	536.0p
Ordinary Share Price	359.5p	467.0p
Discount	6.9%	12.9%
Net gearing*	11.8%	1.9%

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

NAV and Share Price for the five years ended 30 September 2011



Chairman's Statement

During the six month period ended 30 September 2011, the Company's net asset value ('NAV') per share fell by 27.9% to 386.2p. This compares to a fall of 28.1% in the benchmark index, the MSCI Europe Small Cap (ex UK) Index. The share price at the end of the period was 359.5p, representing a discount of 6.9% to the NAV per share.

Despite the fall in the NAV per share during the period under review, it is pleasing to report that it is now more than five years since Montanaro Asset Management was appointed as the Company's Manager and, during the period since its appointment in September 2006, the NAV per share increased by 13.0% compared with a fall of 7.2% in the benchmark index.

During the period under review, the significant decline in stock markets across Europe, and hence in the Company's NAV per share, was attributable to increasing concerns about the sovereign debt and banking crises in the Eurozone. The uncertainties and concerns escalated towards the end of the period as politicians sought solutions to the problems, leading to a sharp fall in stock market valuations and a significant increase in volatility.

However, throughout the period, trading results from companies generally have continued to be somewhat ahead of expectations. Following significant cost cutting and restructuring during the financial crisis in 2008 and 2009, companies have established strong balance sheets, thereby providing some protection from the current uncertainties.

Treasury Shares

During the period, the Company sold its entire holding of 875,000 Ordinary Shares from treasury at a price of 459.6p per share. These shares were issued in accordance with the Board's stated policy, which is to issue shares at a discount to the NAV per share provided that such discount is narrower than the weighted average discount to the NAV per share at the time the shares were bought back by the Company.

The sale of shares from treasury increased the number of shares in issue by 5.3%.

Earnings and Dividends

Revenue earnings per share for the period were 6.2p (2010: 3.4p). Despite the significant macro economic uncertainties, company results were, as stated above, generally ahead of expectation during the period, resulting in increased dividend payments from many of the companies within the portfolio.

The Board has declared an unchanged interim dividend of 1.75p per Ordinary Share, payable on 6 January 2012 to shareholders on the register on 9 December 2011.

Borrowings

The Company's level of gearing, net of cash, was 11.8% as at 30 September 2011.

Outlook

The months ahead will be dominated by the resolve and ability of politicians to deal with the crisis in the Eurozone. The outcome will impact the outlook for global economic growth. Stock markets are already discounting an economic slowdown within Europe and, until investor confidence returns, markets are likely to remain volatile.

The companies that we are invested in have strong managements, sound finances and good business franchises. During this period of uncertainty, the Company will continue to focus on investing in such quality smaller companies where the Board continues to believe there are attractive opportunities for good long term returns.

A R IRVINE

Chairman

21 November 2011

Twenty Largest Holdings

as at 30 September 2011

Holding	Country	Sector	Value £'000	% of portfolio
Christian Hansen	Denmark	Chemicals	2,874	3.8
Rational	Germany	Machinery	2,758	3.7
Viscofan	Spain	Food & staples retailing	2,669	3.5
Virbac	France	Pharmaceuticals	2,617	3.5
Kapsch Trafficcom	Austria	Electronic & electrical equipment	2,351	3.1
Belimo Holdings	Switzerland	Building products	2,247	3.0
Fuchs Petrolub	Germany	Chemicals	2,239	3.0
GFK	Germany	Media	2,235	2.9
Elekta	Sweden	Health care equipment	2,126	2.8
AF Group	Sweden	Industrial engineering	2,098	2.8
Lem Holding	Switzerland	Electronic & electrical equipment	1,983	2.6
TGS Nopec Geophysical	Norway	Energy equipment & services	1,868	2.5
Subsea7	Norway	Energy equipment & services	1,850	2.5
Enquest	Sweden	Oil & gas	1,795	2.4
Vacon	Finland	Electronic & electrical equipment	1,783	2.4
Schoeller Bleckmann	Austria	Energy equipment & services	1,770	2.3
Diasorin	Italy	Health care equipment	1,756	2.3
Fugro	Netherlands	Energy equipment & services	1,720	2.3
Bureau Veritas	France	Professional services	1,632	2.2
Outotec	Finland	Construction & engineering	1,628	2.2
Twenty Largest Holdings			41,999	55.8

Consolidated Statement of Comprehensive Income (unaudited)

for the six months ended 30 September 2011

Notes	Six months to 30 September 2011			Six months to 30 September 2010			Year to 31 March 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Capital (losses)/gains									
on Investments									
(Losses)/gains on Investments									
held at fair value	-	(25,945)	(25,945)	-	5,377	5,377	-	19,045	19,045
Exchange gains	-	261	261	-	242	242	-	417	417
	-	(25,684)	(25,684)	-	5,619	5,619	-	19,462	19,462
Revenue									
Investment income	1,751	-	1,751	1,200	-	1,200	1,676	-	1,676
Other operating income	37	-	37	3	-	3	10	-	10
Total income	1,788	(25,684)	(23,896)	1,203	5,619	6,822	1,686	19,462	21,148
Expenditure									
Management expenses	3 (128)	(237)	(365)	(106)	(1,062)	(1,168)	(241)	(1,358)	(1,599)
Other expenses	(240)	-	(240)	(258)	-	(258)	(477)	-	(477)
Total expenditure	(368)	(237)	(605)	(364)	(1,062)	(1,426)	(718)	(1,358)	(2,076)
Profit/(loss) before finance costs and tax									
Finance costs	1,420	(25,921)	(24,501)	839	4,557	5,396	968	18,104	19,072
	(80)	(149)	(229)	(54)	(101)	(155)	(120)	(223)	(343)
Profit/(loss) before tax	1,340	(26,070)	(24,730)	785	4,456	5,241	848	17,881	18,729
Tax	(296)	-	(296)	(214)	-	(214)	(205)	-	(205)
Total comprehensive income	1,044	(26,070)	(25,026)	571	4,456	5,027	643	17,881	18,524
Return per share	4 6.2p	(153.9)p	(147.7)p	3.4p	26.9p	30.3p	3.9p	107.9p	111.8p

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

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

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

No operations were acquired or discontinued during the period.

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

Condensed Group Balance Sheet (unaudited)

as at 30 September 2011

	Notes	As at 30 September 2011 £'000	As at 30 September 2010 £'000	As at 31 March 2011 £'000
Non-current assets				
Investments held at fair value through profit and loss		75,324	85,181	90,483
Current assets				
Other receivables		17	42	244
Cash and cash equivalents		5,297	2,347	11,786
		5,314	2,389	12,030
Total assets		80,638	87,570	102,513
Current liabilities				
Trade and other payables		(13,261)	(11,940)	(13,676)
Total liabilities		(13,261)	(11,940)	(13,676)
Net assets		67,377	75,630	88,837
Capital and reserves				
Called-up share capital		8,724	8,724	8,724
Share premium account		3,935	3,935	3,935
Capital redemption reserve		2,212	2,212	2,212
Capital reserve		49,688	58,311	71,736
Revenue reserve		2,818	2,448	2,230
Shareholders' funds		67,377	75,630	88,837
Net asset value per share	6	386.2p	456.3p	536.0p

Consolidated Statement of Changes in Equity (unaudited)

for the six months ended 30 September 2011

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

for the six months ended 30 September 2010

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2010	8,724	3,935	2,212	53,855	2,333	71,059
Total comprehensive income	–	–	–	4,456	571	5,027
Dividends paid	–	–	–	–	(456)	(456)
Balance at 30 September 2010	8,724	3,935	2,212	58,311	2,448	75,630

for the year ended 31 March 2011

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2010	8,724	3,935	2,212	53,855	2,333	71,059
Total comprehensive income	–	–	–	17,881	643	18,524
Dividends paid	–	–	–	–	(746)	(746)
Balance at 31 March 2011	8,724	3,935	2,212	71,736	2,230	88,837

Condensed Group Statement of Cash Flows (unaudited)

for the six months ended 30 September 2011

	Six months to 30 September 2011 £'000	Six months to 30 September 2010 £'000	Year to 31 March 2011 £'000
Net cash (outflow)/inflow from operating activities	(11,913)	138	9,645
Cash flows from financing activities	5,559	637	159
Exchange differences	(6,354)	775	9,804
	(135)	9	419
(Decrease)/increase in cash and cash equivalents	(6,489)	784	10,223

Reconciliation of net operating (loss)/profit before finance costs and tax to net cash (outflow)/inflow from operating activities

Net operating (loss)/profit before finance costs and tax	(24,501)	5,396	19,072
(Losses)/gains on investments held at fair value	25,945	(5,377)	(19,045)
Exchange differences	(261)	(242)	(417)
Withholding tax	(296)	(194)	(185)
Purchases of investments	(20,264)	(13,798)	(21,276)
Sales of investments	8,045	13,166	30,505
Changes in working capital and other non-cash items	(581)	1,187	991
Net cash (outflow)/inflow from operating activities	(11,913)	138	9,645

Statement of Principal Risks and Uncertainties

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

These risks, and the way in which they are mitigated, are described in more detail under the heading Principal Risks and Risk Mitigation in the Report of the Directors in the Company's Annual Report for the year ended 31 March 2011. The Company's principal risks and uncertainties have not changed materially since the date of that report and are not expected to change materially for the remaining six months of the Company's financial year.

Directors' Responsibility Statement

in respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS34 'Interim Financial Reporting' and give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Chairman's Statement (constituting the Interim Management Report) includes a fair review of the information required by the Disclosure and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties shown above is a fair review of the information required by DTR 4.2.7R; and
- the condensed set of financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board,

A R IRVINE

Director

21 November 2011

Notes to the Accounts

- The unaudited interim financial statements have been prepared on the basis of the accounting policies set out in the statutory financial statements of the Group for the year ended 31 March 2011 and in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting'.
- Earnings for the first six months should not be taken as a guide to the results for the full year.
- Management Expenses

	Six months to 30 September 2011			Six months to 30 September 2010			Year ended 31 March 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee – basic	128	237	365	106	198	304	241	448	689
Investment management fee – performance	–	–	–	–	864	864	–	910	910
	128	237	365	106	1,062	1,168	241	1,358	1,599

- Earnings per Ordinary Share is based on a weighted average of 16,943,452 Ordinary Shares in issue during the period (year ended 31 March 2011: 16,573,260; six months ended 30 September 2010: 16,573,260), excluding those shares brought back and held in treasury.
- The interim dividend of 1.75p per Ordinary Share will be paid on 6 January 2012 to shareholders on the register on 9 December 2011.
- The net asset value per Ordinary Share is based on 17,448,260 Ordinary Shares in issue at the end of the period (31 March 2011: 16,573,260; 30 September 2010: 16,573,260), excluding those shares bought back and held in treasury. As at 30 September 2011 there were no shares held in treasury (31 March 2011: 875,000; 30 September 2010: 875,000).
- Rates of exchange

	30 September 2011	31 March 2011
Danish Krone	8.64	8.42
Euro	1.16	1.13
Norwegian Krone	9.15	8.87
Swedish Krona	10.70	10.11
Swiss Franc	1.42	1.47

- The Group results consolidate those of MESCT Securities Limited, a wholly owned non-trading subsidiary.
- These are not statutory accounts in terms of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the Company's auditors. The information for the year ended 31 March 2011 has been extracted from the latest published financial statements which received an unqualified audit report and have been filed with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2011 have been reported on by the Company's Auditors or delivered to the Registrar of Companies.

Shareholder Information

Dividends

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

Change of Address

Communications with shareholders are mailed to the address shown on the share register. In the event of a change of address or other amendment this should be notified to Equiniti Limited 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 and SIPPs, and First Steps, an investment plan for children. More information can be obtained by contacting ATS on 08000 326 323 or visiting www.alliancetrust.co.uk.

Sources of Further Information

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

Warning to Shareholders – Boiler Room Scams

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

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

Directors and Advisers

Directors

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

Manager

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Company Secretary, Administrator and Registered Office

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Registrars

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Registrars' Broker Helpline

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Custodian

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Solicitors

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Edinburgh EH2 4DF

Montanaro European Smaller Companies Trust plc

Registered in Scotland No. SC074677

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

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

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