



MONTANARO

European Smaller Companies Trust plc

Interim Report 2010

The investment objective of **Montanaro European Smaller Companies Trust plc** ('the Company') is to achieve capital growth by investing principally in 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 2010

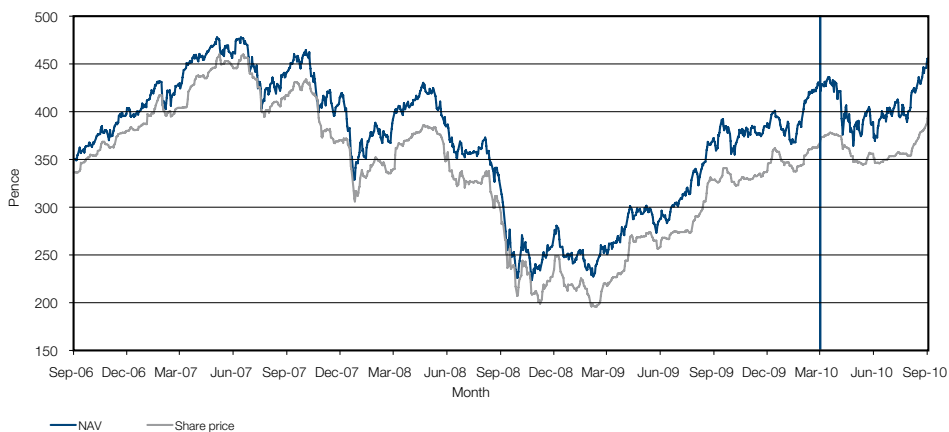
Results

- > Share price +7.5%
- > Net asset value ('NAV') per Ordinary Share +6.4%
- > Benchmark index -2.9%
- > Total assets +8.0% (£87.6 million)

	As at 30 September 2010	As at 31 March 2010
Net assets ('000s)	£75,630	£71,059
NAV per Ordinary Share	456.34p	428.76p
Ordinary Share Price	401.00p	373.00p
Discount	12.1%	13.0%
Net gearing*	12.6%	11.3%

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

NAV and Share Price for the four years ended 30 September 2010



Chairman's Statement

The six months ended 30 September 2010 was a period of good absolute and relative performance for the Company. The share price increased by 7.5% to 401p and the net asset value per share ('NAV') increased by 6.4%, to 456.34p, which compares to a decrease of 2.9% in the benchmark index. The discount of share price to NAV at the end of the period was 12.1%.

Looking at the longer term picture, it is very pleasing to note the consistently strong performance of the Company's NAV since the appointment of Montanaro Asset Management Limited as Manager in September 2006. The NAV outperformed the benchmark index in three out of the four years, with a cumulative total return of 35.5% making it the best performing investment trust in the AIC's European Smaller Companies sector.

Smaller company stockmarkets in Continental Europe were initially weak during the six month period as investors became concerned about the effect of fiscal austerity measures, the downgrading of Greece's government debt and the likelihood of debt restructuring or defaults spreading to other countries in the region. Latterly, however, sentiment has improved and fears of a double-dip recession receded. Concerns remain over the financial health of Greece and some of the other weaker countries in Europe, such as Spain, Italy, Portugal and Ireland, but the economies of other parts of the region are performing well: in particular Germany and Scandinavia, where export growth is strong.

The strength of company balance sheets improved and corporate profitability increased during the period. Markets also benefited from an increase in mergers and acquisition activity. The Company's portfolio performed strongly, with most of the holdings rising in value and outperforming the benchmark. This reflects the Manager's emphasis of investing in good quality companies with strong management teams and avoiding investment in companies which are significantly exposed to government spending.

Earnings and Dividends

Revenue earnings per share were 3.44p in respect of the six month period ended 30 September 2010 (2009: 3.39p). The Board has declared an unchanged interim dividend of 1.75p per Ordinary Share, payable on 7 January 2011 to shareholders on the register on 10 December 2010.

Borrowings

Reflecting the Manager's positive outlook for markets, the Company's borrowings as at 30 September 2010 amounted to £10.8 million. Borrowings, net of cash, were 12.6% of the net asset value, which compares to 11.3% as at 31 March 2010.

The Board reviews borrowings on a regular basis and receives recommendations from the Manager on gearing levels. The Company's borrowings are represented by a flexible Euro-denominated revolving credit facility which enables the gearing to be increased or decreased as considered appropriate.

Outlook

There remain uncertainties over the durability of the economic recovery in Continental Europe. Although a double-dip recession seems unlikely, it is probable that there will be a period of only low economic growth ahead. Some countries in the region are likely to continue to produce relatively strong growth while the weaker countries will continue to struggle.

Notwithstanding this uncertainty, the shares of European smaller companies remain attractive, trading below their historical average valuations. However, whilst this might suggest further possible upside, stockmarket returns are likely to continue to be volatile in the months ahead.

The Board believes that this environment provides the opportunity for good returns by prudent stock picking in high quality companies with strong management teams.

A R IRVINE

Chairman

18 November 2010

Twenty Largest Holdings

as at 30 September 2010

Holding	Country	Sector	Value £'000	% of portfolio
Prosegur Seguridad	Spain	Support services	3,036	3.6
Virbac	France	Pharmaceuticals	2,838	3.3
AF Group	Sweden	Industrial engineering	2,725	3.2
Viscofan	Spain	Food & staples retailing	2,618	3.1
Fuchs Petrolub	Germany	Chemicals	2,578	3.0
GFK	Germany	Media	2,466	2.9
Arcadis	Netherlands	Construction & engineering	2,418	2.8
Fugro	Netherlands	Energy equipment & services	2,297	2.7
Christian Hansen	Denmark	Chemicals	2,242	2.6
Nokian Renkaat	Finland	Auto components	2,182	2.6
Skistar	Sweden	Travel & leisure	2,125	2.5
Vacon	Finland	Electronic & electrical equipment	2,123	2.5
BTS Group	Sweden	Professional services	2,121	2.5
Outotec	Finland	Construction & engineering	2,085	2.5
Rational	Germany	Machinery	2,072	2.4
Belimo Holdings	Switzerland	Building products	2,049	2.4
YIT	Finland	Construction & engineering	2,033	2.4
Poyry	Finland	Construction & building materials	1,994	2.3
Frigoglass	Greece	Machinery	1,953	2.3
GAM	Switzerland	Banking	1,929	2.3
Twenty largest holdings			45,884	53.9

Consolidated Statement of Comprehensive Income (unaudited)

for the six months ended 30 September 2010

Notes	Six months to 30 September 2010			Six months to 30 September 2009			Year to 31 March 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Capital gains/(losses)									
on Investments									
Gains on Investments									
held at fair value	–	5,377	5,377	–	19,599	19,599	–	29,246	29,246
Exchange gains/(losses)	–	242	242	–	(372)	(372)	–	(135)	(135)
	–	5,619	5,619	–	19,227	19,227	–	29,111	29,111
Revenue									
Investment income	1,200	–	1,200	1,136	–	1,136	1,747	–	1,747
Other Income	3	–	3	9	–	9	13	–	13
Total income	1,203	5,619	6,822	1,145	19,227	20,372	1,760	29,111	30,871
Expenditure									
Management expenses	3 (106)	(1,062)	(1,168)	(80)	(148)	(228)	(176)	(328)	(504)
Other expenses	(258)	–	(258)	(272)	–	(272)	(497)	–	(497)
Total expenditure	(364)	(1,062)	(1,426)	(352)	(148)	(500)	(673)	(328)	(1,001)
Profit before finance costs and tax									
Finance costs	(54)	(101)	(155)	(28)	(52)	(80)	(68)	(126)	(194)
Profit before tax	785	4,456	5,241	765	19,027	19,792	1,019	28,657	29,676
Tax	(214)	–	(214)	(204)	99	(105)	(229)	–	(229)
Total comprehensive income	571	4,456	5,027	561	19,126	19,687	790	28,657	29,447
Return per share	4 3.44p	26.89p	30.33p	3.39p	115.40p	118.79p	4.77p	172.91p	177.68p

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 2010

	Notes	As at 30 September 2010 £'000	As at 30 September 2009 £'000	As at 31 March 2010 £'000
Non-current assets				
Investments held at fair value through profit and loss		85,181	67,084	79,114
Current assets				
Other receivables		42	141	375
Cash and cash equivalents		2,347	4,600	1,563
		2,389	4,741	1,938
Total assets		87,570	71,825	81,052
Current liabilities				
Other payables		(11,940)	(10,236)	(9,993)
Total liabilities		(11,940)	(10,236)	(9,993)
Net assets		75,630	61,589	71,059
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		58,311	44,324	53,855
Revenue reserve		2,448	2,394	2,333
Shareholders' funds		75,630	61,589	71,059
Net asset value per share	6	456.34p	371.62p	428.76p

Consolidated Statement of Changes in Equity (unaudited)

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 six months ended 30 September 2009

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2009	8,724	3,935	2,212	25,198	2,584	42,653
Total comprehensive income	–	–	–	19,126	561	19,687
Dividends paid	–	–	–	–	(751)	(751)
Balance at 30 September 2009	8,724	3,935	2,212	44,324	2,394	61,589

for the year ended 31 March 2010

	Share Capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance at 1 April 2009	8,724	3,935	2,212	25,198	2,584	42,653
Total comprehensive income	–	–	–	28,657	790	29,447
Dividends paid	–	–	–	–	(1,041)	(1,041)
Balance at 31 March 2010	8,724	3,935	2,212	53,855	2,333	71,059

Condensed Group Statement of Cash Flows (unaudited)

for the six months ended 30 September 2010

	Six months to 30 September 2010 £'000	Six months to 30 September 2009 £'000	Year to 31 March 2010 £'000
Net cash from operating activities	770	582	394
Cash flows from investing activities	(632)	(6,804)	(9,246)
Cash flows from financing activities	637	6,206	5,803
	775	(16)	(3,049)
Exchange differences	9	125	121
Increase/(decrease) in cash and cash equivalents	784	109	(2,928)

Reconciliation of net operating profit before finance costs and tax to net cash flow from operating activities

Net operating profit before finance costs and tax	5,396	19,872	29,870
Gains on investments held at fair value	(5,377)	(19,599)	(29,246)
Exchange differences	(242)	372	135
Withholding tax	(194)	(105)	(199)
Changes in working capital and other non-cash items	1,187	42	(166)
Net cash from operating activities	770	582	394

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 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 2010. 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 profit of the Company;
- the Chairman's Statement (constituting the Interim Management Report) together with the Statement of Principal Risks and Uncertainties include 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 condensed set of consolidated financial statements; and
- the Chairman's Statement together with the 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 current 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

18 November 2010

Notes to the Accounts

1. The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Annual Report and financial statements for the year ended 31 March 2010.
2. Earnings for the first six months should not be taken as a guide to the results for the full year.
3. Management Expenses

	Six months to 30 September 2010			Six months to 30 September 2009			Year ended 31 March 2010		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee – basic	106	198	304	80	148	228	176	328	504
Investment management fee – performance	–	864	864	–	–	–	–	–	–
	106	1,062	1,168	80	148	228	176	328	504

4. Earnings per Ordinary Share is based on a weighted average of 16,573,260 Ordinary Shares in issue during the period (year ended 31 March 2010: 16,573,260; six months ended 30 September 2009: 16,573,260), excluding those shares brought back and held in treasury.
5. The interim dividend of 1.75p per Ordinary Share will be paid on 7 January 2011 to shareholders on the register on 10 December 2010.
6. The net asset value per Ordinary Share is based on 16,573,260 Ordinary Shares in issue at the end of the period (31 March 2010: 16,573,260; 30 September 2009: 16,573,260), excluding those shares bought back and held in treasury.
7. The Group results consolidate those of MESCT Securities Limited, a wholly owned non-trading subsidiary.
8. 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 2010 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 2010 have been reported on by the Company's Auditors or delivered to the Registrar of Companies.

Notes

Directors and Advisers

Directors

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

Manager

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Montanaro European Smaller Companies Trust plc

Registered in Scotland No. SC074677

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

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