Standard Life UK Smaller Companies Trust plc

Half Yearly Report 31 December 2016

Contents

Investment Objective

To achieve long-term capital growth by investment in UK quoted smaller companies.

Investment Policy

The Company intends to achieve its investment objective by investing in a diversified portfolio consisting mainly of UK quoted smaller companies. The portfolio will normally comprise around 60 individual holdings representing the Investment Manager's highest conviction investment ideas. In order to reduce risk in the Company without compromising flexibility, no holding within the portfolio should exceed 5% of total assets at the time of acquisition.

The Company may use derivatives for portfolio hedging purposes (i.e. only for the purpose of reducing, transferring or eliminating the investment risks in its investments in order to protect the Company's portfolio).

Within the Company's Articles of Association, the maximum level of gearing is 100% of net assets. The Directors have set parameters of between 5% net cash and 25% net gearing (at time of drawdown) for the level of gearing that can be employed in normal market conditions. The Directors have delegated responsibility to the Investment Manager, Standard Life Investments (Corporate Funds) Limited ("Investment Manager"), for the operation of the gearing level within the above parameters.

The Investment Manager's investment process combines asset allocation, stock selection, portfolio construction, risk management, and dealing. The investment process is research intensive and is driven by the Investment Manager's distinctive "focus on change" which recognises that different factors drive individual stocks and markets at different times in the cycle.

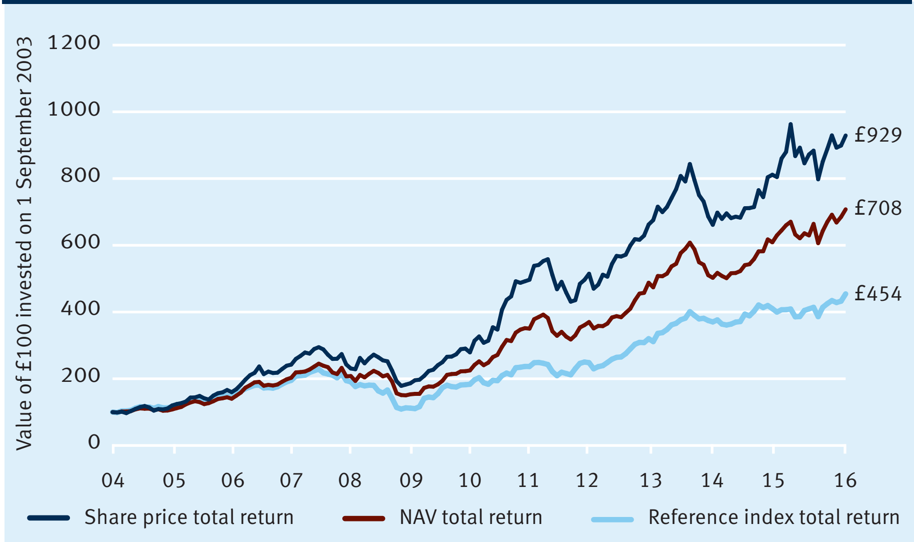
Financial Highlights

for the six months ended 31 December 2016

Total Return Performance	Six months ended 31 December 2016
Diluted net asset value total return	16.7%
Share price total return	16.5%
Reference index total return	17.7%

The Company's reference index is the Numis Smaller Companies Index (excluding Investment Companies). Total return assumes that dividends paid to shareholders are re-invested in shares at the time the shares are quoted ex-dividend.

Over a Decade of Strong Performance



Composition of Portfolio by Market Capitalisation

Index	% of portfolio
FTSE 250*	16.9
Numis Smaller Companies (excluding Investment Companies)	45.0
AiM	36.8
Non-Index	1.3

*FTSE 250 are mid cap holdings that are above the threshold for Numis Smaller Companies holdings.

Financial Highlights

for the six months ended 31 December 2016

Performance	31 December 2016	30 June 2016	% change
Net asset value per ordinary share			
Basic	410.17p	356.90p	+14.9%
Diluted	394.70p	345.43p	+14.3%
Ordinary share price	362.75p	316.00p	+14.8%
Discount of ordinary share price to net asset value			
Basic	11.6%	11.5%	
Diluted	8.1%	8.5%	
Reference index	7,308.17	6,298.17	+16.0%
Total assets (£m)	291.44	256.59	+13.6%
Equity shareholders' funds (£m)	276.27	240.63	+14.8%

Revenue return - for six months ended	31 December 2016	31 December 2015	% change
Revenue return per ordinary share			
Basic	2.61p	2.46p	+6.1%
Diluted	2.46p	2.28p	+7.9%
Interim dividend per ordinary share	1.50p	1.40p	+7.1%

Gearing	31 December 2016	30 June 2016
Net gearing[1]	3.2%	3.6%

Expenses	31 December 2016	30 June 2016
Ongoing charges[2]	1.16%	1.13%

[1] Net gearing ratio is calculated as the total liability component of £15.2m of the Convertible Unsecured Loan Stock (CULS) less the cash invested in AAA money market funds and cash and short term deposits, divided by net assets. The nominal value of the CULS at 31 December 2016 was £15.4m.

[2] Ongoing charges ratio is calculated in accordance with guidance issued by the AIC as the total of the investment management fee and administrative expenses divided by the average cum income net asset value throughout the year.

Strategic Report

Chairman's Statement

David Woods

Performance

The Company's diluted net asset value total return was 16.7% for the six months ended 31 December 2016. This compares with a total return of 17.7% for the Company's reference index, the Numis Smaller Companies Index (excluding Investment Companies).

The results highlight the effect of looking at relative rather than absolute performance. In absolute terms, the return generated by the portfolio is higher in this period than the 15.4% increase reported for the same period last year, but this year the performance has not kept pace with the index against which the Trust is regularly measured, while last year, it had significantly outperformed. The long-term performance remains strong and is illustrated in the table below:

	6 months	1 year	3 years	5 years	10 years
Net asset value total return (%)	16.7	5.6	27.2	122.8	223.2
Share price total return (%)	16.5	(3.5)	15.0	115.5	258.1
Reference index total return (%)	17.7	11.1	20.6	114.6	118.4
Peer group ranking (NAV TR)	11/15	10/15	8/15	10/15	1/13

Sources: Thomson Reuters & Standard Life Investments

The Investment Manager's Report provides further information on stock performance and portfolio activity during the year, as well as the Investment Manager's outlook for smaller companies. The Board agrees with the Manager's view that quality growth stocks should outperform cyclical stocks over the long term.

Earnings and Dividend

The revenue return per share for the six months ended 31 December 2016 was 2.61p (2015 – 2.46p), with underlying dividends from investee companies increasing by 9.3% compared with the same period last year.

The Board is proposing an interim dividend of 1.50p per share (2015: 1.40p per share) and this will be paid on 7 April 2017 to shareholders on the register as at 10 March 2017 with an associated ex-dividend date of 9 March 2017.

Gearing and CULS

The Board has given the Investment Manager discretion to vary the level of gearing between a net cash position of 5% and net gearing of 25% of

Chairman's Statement (continued)

net assets, depending on the Investment Manager's view of the outlook for smaller companies.

The Company currently has £15.4 million 3.5% Convertible Unsecured Loan Stock 2018 (CULS) in issue and the Investment Manager is able to vary net gearing by adjusting the level of cash held by the Company. At 31 December 2016, the net gearing or borrowing level was 3.2%.

On 10 October 2016, 378,514 Ordinary shares were issued from treasury, following elections by holders of the CULS to convert £898,071 of nominal stock.

As a reminder to holders of the CULS, these can be converted into Ordinary shares on three remaining dates: 31 March and 30 September 2017 with the final opportunity to convert in March 2018, at a fixed price per Ordinary share of 237.2542p.

Discount Control

The Board is committed to monitoring and controlling the discount, primarily through market purchases but also through tender offers. The discount at which the Company's shares trade relative to the underlying diluted net asset value (including income) was 8.1% at 31 December 2016. The Company's shares have traded at an average discount of 5.8% over the 12 months to 31 December 2016.

The period-end discount compares favourably with the peer group average discount which was 14.4% at 31 December 2016. The Board will aim to use its 14.99% share buy-back authority, which was approved by shareholders at the 2016 AGM, to seek to maintain a discount level of less than 8% to diluted net asset value under normal market conditions. Share buy-backs will only be made where the Board believes it to be in the best interests of shareholders as a whole and the making and timing of share buy-backs will be at the absolute discretion of the Board.

The Company also has a tender offer mechanism in place and the Board intends to continue to seek shareholder approval to enable it to carry out tender offers on a discretionary basis in circumstances where the Board believes that share buy-backs are not sufficient to maintain the discount at an appropriate level. The Board has concluded that as the discount policy threshold had been adjusted to 8% from 10% that it will normally focus on controlling the discount through regular buy-backs of shares in the market when the discount has drifted beyond the prescribed level. During the period, 443,818 Ordinary shares, representing 0.7% of the issued share capital, were bought back at an average discount of 9.0%.

Chairman's Statement (continued)

Shareholder relations

The Board held the AGM on Thursday, 27 October 2016 at the Manager's office at 30 St. Mary Axe, London and intends to hold the AGM for the current financial year at the Manager's office in Edinburgh on Thursday, 26 October 2017.

In addition, the Board intends to hold an investor presentation in the Manager's London office on Tuesday, 21 November 2017 and shareholders will be sent further details in due course.

Board changes

Tim Scholefield joined the Board in February 2017 and will be proposed for election at the AGM in October 2017. Tim has extensive fund management experience, most recently as Head of Equities at Baring Asset Management. I am confident that he will prove to be an invaluable addition to the Board and I and my fellow Directors look forward to working with him.

After over 11 years as a Director, including three years as Chairman, I have decided that it is time for me to retire, which I intend to do following the conclusion of the AGM in October. It has been a privilege to have served on this Board over that time and to have worked with Harry Nimmo and the team at Standard Life Investments. I am delighted to be able to inform you that Allister Langlands, who has been on the Board since July 2014 and has chaired the Audit Committee for the last two years, will succeed me as Chairman and I am confident that he will serve you well. Caroline Ramsay will take over from Allister as Chair of the Audit Committee.

Outlook

The UK and world markets are adapting to the post-Brexit environment. Some of the more doom-laden prophesies have not come to pass but we do not seem to be that much clearer as to what the landscape will look like once the negotiations are all complete. Markets remain volatile and challenging and we expect this to remain the case until we have more clarity on what the Brexit negotiations will mean for the economy and, more particularly, the companies in which we invest. More comment on this can be found in the Manager's Report. Nevertheless, the Board remains confident in the outlook for the Company over the long term. The Investment Manager's investment process has delivered excellent returns for shareholders. We expect the portfolio to continue to deliver strong earnings and dividend growth. The emphasis on risk aversion, resilience, growth and momentum remains intact.

David Woods
Chairman

24 February 2017

Principal Risks and Uncertainties

The Board conducts a regular review of the principal risks and uncertainties faced by the Company which the Board and the Manager have identified and the Board sets out delegated controls designed to manage those risks and uncertainties. Key risks within investment strategy, including inappropriate stock selection and gearing, are managed by the Board through a defined investment policy, with guidelines and restrictions, and by the process of oversight at each Board Meeting. Operational disruption, accounting and legal risks are also covered at least annually and regulatory compliance is reviewed at each Board Meeting.

The Directors have adopted a robust framework of internal controls, which is designed to monitor the principal risks and uncertainties facing the Company and provide a monitoring system to enable the Directors to mitigate these risks as far as possible.

The major risks associated with the Company are:

- **Investment and market risk:** The Company is exposed to the effect of variations in share prices due to the nature of its business. A fall in the value of its investment portfolio will have an adverse effect on the value of shareholders' funds.

Regular reports are received from the Manager on stock selection, sector allocation, gearing and market outlook. Investment performance is received in detail and discussed with the Manager at each Board Meeting.

- **Capital structure and gearing risk:** The Company's capital structure, as at 31 December 2016, consisted of equity share capital comprising 67,355,750 Ordinary 25p shares and £15,378,741 nominal amount of Convertible Unsecured Loan Stock 2018. There were also 4,271,425 Ordinary shares of 25p held in treasury. The effect of gearing should be beneficial in rising markets but could adversely affect returns to shareholders in falling markets. The Manager is able to increase or decrease the Company's level of net gearing by holding a lower or higher cash balance subject to the Company's investment policy which requires that gearing should remain between 5% net cash and 25% net gearing at the time of drawdown.
- **Revenue and dividend risk:** In view of the Company's investment objective, which is to generate long-term capital growth by investment in UK quoted smaller companies, the Manager aims to strike

Principal Risks and Uncertainties (continued)

a balance more in favour of capital growth than revenue return. In normal circumstances, the Board intends to pay a dividend commensurate with the year's income.

The Board receives regular updates as to the progress made by the Manager in generating a revenue return and the consequent level of the Company's anticipated dividend.

- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. A breach of Section 1158 of the Corporation Tax Act 2010 would result in the Company being subject to capital gains tax on portfolio investments. Breaches of other regulations, including (but not restricted to) the Companies Act 2006, the FCA Listing Rules, the FCA Disclosure and Transparency Rules, the Market Abuse Regulation, the Foreign Account Tax Compliance Act and the Common Reporting Standard, could lead to a number of detrimental outcomes and reputational damage. Breaches of controls by service providers to the Company, could also lead to reputational damage or loss.

  There is also a regulatory risk in ensuring compliance with the Alternative Investment Fund Managers Directive (AIFMD). In accordance with the requirements of the AIFMD, the Company appointed Standard Life Investments (Corporate Funds) Limited as its Alternative Investment Fund Manager (AIFM) and BNP Paribas Securities Services as its Depositary. The Board receives regular reporting from the AIFM and the Depositary to ensure both are meeting their regulatory responsibilities in relation to the Company.

- **Supplier risk:** in common with most investment trusts, the Company has no employees. The Company therefore relies upon services provided by third parties, including the Manager in particular, to whom responsibility for the management of the Company has been delegated under an Investment Management Agreement.

- **Geopolitical risk:** The Company is exposed to the effects of geopolitical instability or change, as this could have an adverse effect on Stock Markets. The Board and the Manager regularly review and discuss current geopolitical issues and seek appropriate expert advice, when necessary, in relation to managing any impacts on the Company.

Going Concern

The factors which have an impact on Going Concern are set out in the Going Concern section of the Directors' Report in the Company's Annual Report and Financial Statements to 30 June 2016. As at 31 December 2016, there have been no significant changes to these factors. The Company had no bank borrowings at 31 December 2016. The Directors are mindful of the principal risks and uncertainties disclosed above. The Directors have reviewed the revenue forecast for the years ending 30 June 2017 and 30 June 2018 and have considered the liability profile of the £15.4 million Convertible Unsecured Loan Stock which matures in 2018. As a result, the Directors believe that the Company has adequate financial resources to continue its operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the interim accounts.

Manager's Report

In absolute terms the Net Asset Value (NAV) Total Return of the Trust for the six months to 31 December 2016 was 16.7%, while the share price total return was 16.5%. Given the political backdrop against which this return needs to be assessed, this is a creditable return. However, it does not quite compare to the total return of the UK smaller companies sector, as represented by the Numis Smaller Companies Index (excluding Investment Companies), of 17.7%. Over the same period, the total return of the FTSE100 Index of the largest UK listed companies was 12.0%. Standard Life Investments has managed the Trust since September 2003 and the Trust share price at that time was 47.75p. Between then and the end of the current period, the Trust's share price total return is 829%. This compares with the total return on our reference index of 354% and the total return of the FTSE-All Share Index of 197%.

Equity markets

The second half of 2016 was a period of steady recovery from the excess of pessimism in the aftermath of the Referendum on Europe. The reality is that apart from a few travel and airline stocks impacted by weaker Sterling, the UK economy has been robust and even strengthened towards the year end and this includes the consumer sector. This was even before, what I see as, the rather unnecessary base rate cut in October. Markets then weakened as investors obsessed about the lack of clarity in Brexit negotiations. The Trump election win in the US was generally a boost to markets, particularly US Smallcaps. Smaller companies caught up a lot of the lost ground from the immediate aftermath of the Brexit vote in the six weeks following the US election day.

Bid activity has accelerated. At the very start of the period, there was the takeover of ARM Holdings by SoftBank in LargeCaps. There have been nine significant bids for smaller listed companies in the period in question of which seven have come from overseas based acquirers presumably taking advantage of the weakness of Sterling. The targets have tended to be lowly rated shares.

The Trust did not hold any of the stocks that were in receipt of bids.

Corporate Profits and trading statements in the period have generally been satisfactory. Exceptions have been in engineering and aerospace (Senior, Laird, Cobham) and one or two airlines (Easyjet) and out-sourcers (Mitie). In consumer stocks results have generally been satisfactory.

Performance

The period in question saw performance driven by macro events rather than underlying trading and prospects of individual companies. This has been unhelpful. In particular, the rally in Mining stocks and heavy UK exposure has been bad for the Trust’s relative performance against the reference index. Mining stocks have recovered dramatically and have been given a late year boost by Trump’s victory and pronouncements on infrastructure spend. UK orientated businesses, particularly real estate and financials generally performed poorly. The Trust was light in both these sectors. The more overseas exposure, the better the performance of the share was the rule, with exporters doing best. The oil & gas sector recovered strongly following OPEC agreeing on reducing production, particularly after Russia agreed to add to the cuts.

Against that backdrop, individual stocks within the portfolio have delivered impressive returns and the five leading performers in the period have been as follows:-

Fevertree Drinks (3.7% weighting, +58%). This phenomenal success story managed to beat expectations again and again as they revolutionise the mixer drink market as the premium category expands.

Accesso Technologies (2.7% weighting, +31%). The company is the world leader in “queuing technologies” through smart phones for visitor attractions and continued to roll out with key customer Merlin.

CVS Group (3.2% weighting, +42%) is the UK chain of vets that is consolidating the UK market and is expanding into the Netherlands. Its recent trading statement was strong.

Manager's Report

JD Sports Fashion (3.1% weighting, +38%) marches forward with its international expansion plans. Ath-leisure clothing continues to gain momentum across markets. There is also evidence that its foray into outdoor-wear may be starting to pay off.

Sanne Group (3.4% weighting, +49%) is the ambitious specialist fund administration company which acquired a significant funds administration business based in Mauritius in an earnings enhancing deal.

Avoiding the poor performers and those companies issuing profit warnings, such as **Laird**, **Mediclinic**, **NCC** and **Mitie**, proved helpful in the period.

Not owning four Mining stocks, **Vedanta**, **Kaz Minerals**, **Evraz** and **Ferrexpro** cost the Trust 2.2% of relative performance. Not owning the strongly performing **Electrocomponents** was also negative. There were three smaller holdings that issued profit warnings in the period. **Novae Group** was hit by underwriting losses, **Motorpoint** misjudged the impact of Brexit and **Eckoh's** joint venture with West Corp started more slowly than previously anticipated.

Dealing and Activity

The five largest additions to the existing portfolio were as follows:-

Hilton Food Group (1.7% weighting). This is a meatpacking business which operates on an "open book" basis with supermarkets around the world from the UK to Australia. It is another founder-run business. They recently announced business wins in Portugal.

Ricardo (1.6%) is an auto engineering consultancy that has been around for one hundred years. It specialises in emissions and fuel efficiency and has exposure to the new areas of autonomous vehicles. The business is well diversified by client, geography and segment.

James Fisher (1.4%). This transport and resources orientated engineering group is in decent growth markets that have visibility. Its bolt-on acquisition strategy is sound and earnings enhancing.

Diploma (1.2%). The company is a specialist distributor of seals, laboratory and telecoms equipment. It operates internationally and, historically, has made earnings enhancing "bolt on" acquisitions most years while operating in a growth niche market where there is less competition.

Novae (1.1%). This is a Lloyds underwriter with some interesting specialist niches such as cybercrime, on a low rating. Unfortunately shortly after investing in the company, it announced what we considered to be very poor loan-loss numbers, such that we reviewed our investment thesis. The holding has been sold since the period end.

One wholly new holding was added to the portfolio, that of **ECO Animal Health**. It is the owner of an antibiotic (Aivlosin) mainly for pigs and poultry for multiple indications. A particularly positive attribute is the short duration of Aivlosin, meaning it breaks down quickly in the body. Growth and international expansion is rapid, particularly in the USA and China.

Following the Brexit vote our stock selection matrix has been steering the new purchases towards businesses with significant overseas exposure. Larger follow-on purchases include **Hill & Smith** in infrastructure construction safety equipment with substantial US exposure, **Midwich** the distributor of visual display units and **4imprint** in US orientated sales promotion materials. UK exposed **Workspace** (work centres) and **Domino's Pizza UK & Ireland** were also bought.

Our key sales were:-

Seven holdings were sold in their entirety. Four were in companies at the larger end of the spectrum which had been in the portfolio for many years and had mostly made outstanding returns for the Trust. These were **Shaftesbury** in retail London property, **Computacenter**, **Victrex** (high performance polymers) and **Halma** (safety electronics). Three smaller holdings with poor matrix scores were also sold. They were **Solid State** and **Sprue Aegis** in electricals and **Lookers**, the car dealer. Other significant sales included **Rightmove**, **Moneysupermarket** and **Dunelm**, these three also being large long-term profitable transactions.

Outlook

It looks as though the UK economy has confounded the pessimists who expected an immediate decline in business confidence in the wake of the UK's Referendum decision last year. It feels as though a significant proportion of the public, in particular, are relaxed about the prospects of even a hard Brexit outcome. Certainly there have been no wholesale reductions in corporate earnings forecasts with a rough balance of upgrades and downgrades.

Manager's Report

The end of March should signify the firing of the starting gun for the exit negotiations to begin as Theresa May and her Government trigger Article 50 of the Lisbon Treaty. It is only then that any real shape to the outcome starts to develop. My thinking is that the negotiations will take all of the two years permitted. This takes us into 2019. It is only some time after the implementation of the withdrawal treaty that the full impact can be properly assessed.

Our prognosis on the oil price is that it will remain in a trading range of $30 to $60 for a number of years. A similar pattern may become apparent in industrial minerals although gold may firm up in this rather uncertain period.

The UK has moved back to the top of the list in terms of GDP growth over the next year. The Christmas period has actually been reasonably good for consumer spending. Some industrial companies have seen weaker trading. Several major corporations have disappointed badly recently, including Next, Pearson and British Telecom.

Within Europe the economic outlook remains uncertain. A European Union without the UK is a weaker entity and a number of its leaders are likely to face re-election challenges, particularly from the political right. Many small European nations, particularly in North Europe were counting on the UK as a counterweight to the might of Germany. The Italian banking industry is still fragile even after recent reforms. The Euro may yet have to face up to further crises if Greece and other peripheral economies can't or won't mend their ways.

The holdings within the Trust however are showing remarkable resilience. Fully 55% of the constituents of the Trust have recorded significant earnings forecast increases looking 24 months out. This is the most predictive factor on the back-testing of our matrix stock selection system. I am struggling to remember a previous period when the profile of earnings revisions has been this good. Companies scoring particularly highly on this measure include **Fevertree Drinks**, **Headlam** (carpet distribution), **JD Sports Fashion**, **Midwich**, **CVS Group** (Vets) and **Cranswick** (Pork Products). This makes me feel particularly optimistic about the Trust's portfolio as long as markets concentrate on the actual operating performances of companies rather than obsessing about macro conditions.

Our process remains unchanged. Our emphasis on risk aversion, resilience, growth and momentum still feels right for the future. Caution should be the watch-word however. The surprisingly good out-turn of smaller companies since the Referendum on the EU may wilt if there is any sign of real weakness in the UK economy.

Smaller Company investing should be viewed as a long-term investment and we believe that patient investors will be rewarded in the longer term. Our stable process has been seasoned by fully four economic cycles. I remain very optimistic about the long-term performance of the Trust.

Harry Nimmo
Head of Smaller Companies
Standard Life Investments

24 February 2017

Top Twenty Investments

At 31 December 2016

	Value £'000	% of Portfolio
NMC Health	11,447	4.0
Fevertree Drinks	10,441	3.7
Ted Baker	9,803	3.4
Sanne Group	9,799	3.4
CVS Group	9,128	3.2
JD Sports Fashion	8,831	3.1
Telecom Plus	8,726	3.1
Workspace	8,694	3.0
Cranswick	8,435	3.0
Dechra Pharmaceuticals	8,366	2.9
First Derivatives	8,000	2.8
Abcam	7,682	2.7
Accesso Technology	7,618	2.7
Emis Group	7,605	2.7
4Imprint Group	6,850	2.4
Mattioli Woods	6,729	2.4
Hill & Smith Holdings	6,554	2.3
Gamma Communications	6,531	2.3
Avon Rubber	6,415	2.2
Dominos Pizza Group	6,279	2.1
Top twenty investments	**163,933**	**57.4**
Other investments (36)	121,703	42.6
Total Portfolio	**285,636**	**100.0**

Sector Distribution

At 31 December 2016

	Portfolio Weighting %	Numis Smaller Companies Index (excluding investment companies) Weighting %
Oil & gas	—	4.2
Basic materials	—	10.9
Industrials	20.4	24.8
Consumer goods	15.5	7.8
Health care	10.2	4.8
Consumer services	24.3	16.6
Telecommunications	5.3	0.9
Utilities	—	1.2
Technology	14.5	6.0
Financials	9.8	22.8
Total equity investments	**100.0**	**100.0**

Condensed Statement of Comprehensive Income

	Notes	Six months ended 31 December 2016 (unaudited) Revenue £'000	Capital £'000	Total £'000
Net gains on investments held at fair value		–	39,230	39,230
Currency gains/(losses)		–	1	1
Income	2	2,493	–	2,493
Investment management fee		(297)	(891)	(1,188)
Administrative expenses		(335)	(16)	(351)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		1,861	38,324	40,185
Finance costs		(93)	(277)	(370)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		1,768	38,047	39,815
Taxation	3	(6)	–	(6)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		**1,762**	**38,047**	**39,809**
BASIC RETURN PER ORDINARY SHARE	5	**2.61p**	**56.45p**	**59.06p**
DILUTED RETURN PER ORDINARY SHARE	5	**2.46p**	**51.60p**	**54.06p**

The total column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains or losses are recognised in the Condensed Statement of Comprehensive Income.

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

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

Condensed Statement of Comprehensive Income

Six months ended 31 December 2015 (unaudited)		
Revenue £'000	Capital £'000	Total £'000
—	34,283	34,283
—	(6)	(6)
2,292	—	2,292
(291)	(872)	(1,163)
(261)	—	(261)
1,740	33,405	35,145
(110)	(331)	(441)
1,630	33,074	34,704
—	—	—
1,630	**33,074**	**34,704**
2.46p	**49.92p**	**52.38p**
2.28p	**44.77p**	**47.05p**

Condensed Statement of Changes in Equity

Six months ended 31 December 2016 (unaudited)

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000
Balance at 30 June 2016	17,907	19,805	1,470
Return on ordinary activities after taxation	—	—	—
Buyback of Shares into Treasury	—	—	—
Issue of Ordinary Shares from Treasury from conversion of 3.5% Convertible Unsecured Loan Stock 2018	—	—	—
Dividends paid (see note 4)	—	—	—
Balance at 31 December 2016	**17,907**	**19,805**	**1,470**

Six months ended 31 December 2015 (unaudited)

	Share capital £'000	Share premium account £'000	Equity component CULS 2018 £'000
Balance at 30 June 2015	17,907	19,805	1,470
Return on ordinary activities after taxation	—	—	—
Buyback of Shares from tender offer	—	—	—
Issue of Ordinary Shares from Treasury from conversion of 3.5% Convertible Unsecured Loan Stock 2018	—	—	—
Dividends paid (see note 4)	—	—	—
Balance at 31 December 2015	**17,907**	**19,805**	**1,470**

Condensed Statement of Changes in Equity

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
32,645	162,300	6,502	240,629
—	38,047	1,762	39,809
(1,544)	—	—	(1,544)
883	—	—	883
—	—	(3,503)	(3,503)
31,984	**200,347**	**4,761**	**276,274**

Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
40,558	157,204	5,832	242,776
—	33,074	1,630	34,704
(11,337)	—	—	(11,337)
1,544	—	—	1,544
—	—	(2,902)	(2,902)
30,765	**190,278**	**4,560**	**264,785**

Condensed Statement of Financial Position

	Notes	As at 31 December 2016 (unaudited) £'000	As at 30 June 2016 (audited) £'000
NON-CURRENT ASSETS			
Investments held at fair value through profit or loss		285,636	248,945
CURRENT ASSETS			
Debtors and prepayments		357	1,280
Investments in AAA Money Market funds		6,358	7,231
Cash and short term deposits		23	6
		6,738	8,517
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Other creditors		(933)	(874)
Net current assets		5,805	7,643
TOTAL ASSETS LESS CURRENT LIABILITIES		**291,441**	**256,588**
NON-CURRENT LIABILITIES			
3.5% Convertible Unsecured Loan Stock 2018		(15,167)	(15,959)
Net assets		**276,274**	**240,629**
CAPITAL AND RESERVES			
Called-up share capital		17,907	17,907
Share premium account		19,805	19,805
Equity component of Convertible Unsecured Loan Stock 2018		1,470	1,470
Special reserve		31,984	32,645
Capital reserve		200,347	162,300
Revenue reserve		4,761	6,502
EQUITY SHAREHOLDERS' FUNDS		**276,274**	**240,629**
BASIC NET ASSET VALUE PER ORDINARY SHARE	8	**410.17p**	**356.90p**
DILUTED NET ASSET VALUE PER ORDINARY SHARE	8	**394.70p**	**345.43p**

Condensed Statement of Cash Flows

	Six months ended 31 December 2016 (unaudited) £'000	Six months ended 31 December 2015 (unaudited) £'000
NET RETURN ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION	40,185	35,145
Adjustment for:		
Gains on investments	(39,230)	(34,283)
Currency (gains)/losses	(1)	6
Decrease in accrued income	932	548
Increase in other debtors	(7)	(3)
Increase in other creditors	64	633
Net overseas tax	(6)	-
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,937	2,046
INVESTING ACTIVITIES		
Net cash inflow from investing activities	2,539	8,009
FINANCING ACTIVITIES		
Interest paid	(285)	(346)
Equity dividends paid	(3,503)	(2,902)
Net cash inflow from management of liquid resources	873	4,508
Buyback of Shares	(1,544)	(11,337)
INCREASE/(DECREASE) IN CASH AND SHORT TERM DEPOSITS	**17**	**(22)**
ANALYSIS OF CHANGES IN CASH DURING THE PERIOD		
Opening cash and short term deposits	6	27
Increase/(decrease) in cash and short term deposits as above	17	(22)
CLOSING CASH AND SHORT TERM DEPOSITS	**23**	**5**

Notes to the Financial Statements

1. Accounting policies

Basis of accounting

The condensed financial statements have been prepared in accordance with Financial Reporting Standard 104 (Interim Financial Reporting) and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The half-year financial statements have been prepared using the same accounting policies as the preceding annual accounts.

2. Income

	Six months ended 31 December 2016 £'000	Six months ended 31 December 2015 £'000
Income from investments		
UK dividend income	2,142	1,931
REIT income	173	162
Overseas dividend income	161	172
	2,476	2,265
Interest income		
Interest from AAA Money Market funds	17	27
	17	27
Total income	**2,493**	**2,292**

Notes to the Financial Statements

3. Taxation

The taxation expenses reflected in the Condensed Statement of Comprehensive Income is based on management's best estimate of the weighted annual corporation tax rate expected for the full financial year. The estimated annual tax rate used for the year to 30 June 2017 is 20.00%.

4. Dividends	Six months ended 31 December 2016 £'000	Six months ended 31 December 2015 £'000
Ordinary dividend on equity shares: 2016 final dividend of 5.20p per share (2015 - 4.40p)	3,503	2,902
	3,503	**2,902**

5. Return per share	Six months ended 31 December 2016 p	Six months ended 31 December 2015 p
Basic return per share		
Revenue return	2.61	2.46
Capital return	56.45	49.92
Total return	**59.06**	**52.38**
Weighted average number of Ordinary shares	**67,399,608**	**66,253,317**

Notes to the Financial Statements

The figures above are based on the following:

	Six months ended 31 December 2016 £'000	Six months ended 31 December 2015 £'000
Revenue return	1,762	1,630
Capital return	38,047	33,074
Total return	**39,809**	**34,704**

Diluted return per share

	Six months ended 31 December 2016 p	Six months ended 31 December 2015 p
Revenue return	2.46	2.28
Capital return	51.60	44.77
Total return	**54.06**	**47.05**
Weighted average number of Ordinary shares	**74,091,411**	**74,281,580**

The figures above are based on the following:

	Six months ended 31 December 2016 £'000	Six months ended 31 December 2015 £'000
Revenue return	1,823	1,691
Capital return	38,230	33,256
Total return	**40,053**	**34,947**

The calculation of the diluted total, revenue and capital returns per ordinary share are carried out in accordance with Financial Reporting Standard 22, "Earnings per Share". For the purpose of calculating total, revenue and capital returns per Ordinary share, the number of Ordinary shares used is the weighted average number used in the basic calculation plus the number the number of Ordinary shares deemed to be issued for no consideration on exercise of all Convertible Unsecured Loan Stock 2018 (CULS). The calculations indicate that the exercise of CULS would result in an increase in the weighted average number of Ordinary shares of 6,691,803 (31 December 2015 - 8,028,263) to 74,091,411 (31 December 2015 - 74,281,580) Ordinary shares.

Where dilution occurs, the net returns are adjusted for items relating to the CULS. Total earnings for the period are tested for dilution. Once dilution has been determined individual revenue and capital earnings are adjusted. CULS finance costs for the period and unamortised issues expenses are reversed.

6. Capital reserve

The capital reserve reflected in the Condensed Statement of Financial Position at 31 December 2016 includes unrealised gains of £117,425,000 (30 June 2016 - £87,267,000) which relate to the revaluation of investments held at the reporting date and realised gains of £82,922,000 (30 June 2016 - £75,033,000)

Notes to the Financial Statements

7. Transaction costs

During the period, expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. These have been expensed through capital and are included within gains on investments in the Condensed Statement of Comprehensive Income. The total costs were as follows:

	Six months ended 31 December 2016 £'000	Six months ended 31 December 2015 £'000
Purchases	152	72
Sales	21	31
	173	**103**

8. Net asset value

Total shareholders' funds have been calculated in accordance with the provisions of applicable accounting standards. The analysis of total shareholders' funds on the face of the Condensed Statement of Financial Position reflects the rights, under the Articles of Association of the Ordinary shareholders on a return of assets.

These rights are reflected in the net asset value and the net asset value per share attributable to Ordinary shareholders at the period end.

	Six months ended 31 December 2016	Year ended 30 June 2016
Basic net asset value per share		
Total shareholders' funds (£'000)	276,274	240,629
Number of Ordinary shares in issue at the period end (excluding shares held in treasury)	67,355,750	67,421,054
Net asset value per share	**410.17p**	**356.90p**
Diluted net asset value per share		
Total shareholders' funds (£'000)	291,441	256,588
Number of Ordinary shares in issue at the period end (excluding shares held in treasury)	73,837,718	74,281,549
Net asset value per share	**394.70p**	**345.43p**

In October 2016 the Company issued 378,514 Ordinary shares from Treasury (31 December 2015 - 669,513 Ordinary shares from Treasury) following receipt of elections to convert £898,071 (31 December 2015 - £1,588,511) nominal amount of 3.5% Convertible Unsecured Loan Stock 2018.

During the six months ended 31 December 2016 the Company repurchased 443,818 Ordinary shares to Treasury (31 December 2015 - Nil) at a cost of £1,544,000 (31 December 2015 - £ Nil).

As at 31 December 2016 there were 67,355,750 Ordinary shares in issue (30 June 2016 - 67,421,054). There are also 4,271,425 Ordinary shares (30 June 2016 - 4,206,121) held in Treasury.

The diluted net asset value per Ordinary share as at 31 December 2016 has been calculated on the assumption that 15,378,741 (30 June 2016 - 16,276,812) 3.5% Convertible Unsecured Loan Stock 2018 are converted at 237.25p per share, giving a total of 73,837,718 (30 June 2016 - 74,281,549) Ordinary shares. Where dilution occurs, the net assets are adjusted for items relating to the convertible loan stock.

Net asset value per share - debt converted

In accordance with the Company's understanding of the current methodology adopted by the AIC, convertible financial instruments are deemed to be 'in the money' if the cum income (debt at fair value) net asset value (NAV) exceeds the conversion price of 237.25p per share. In such circumstances a net asset value is produced and disclosed assuming the convertible debt is fully converted. At 31 December 2016 the cum income (debt at fair value) NAV was 410.17p (30 June 2016 - 356.90p) and thus the CULS 2018 were 'in the money'.

9. Fair value hierarchy

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

Class A: quoted prices for identical instruments in active markets;
Class B: prices of recent transactions for identical instruments; and
Class C: valuation techniques using observable and unobservable market data.

All of the Company's investments are in quoted equities (30 June 2016 – same) that are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments (31 December 2016 – £285,636,000; 30 June 2016 - £248,945,000) has therefore been deemed as Class A.

The Company's CULS are actively traded on a recognised stock exchange. The fair value of the CULS (31 December 2016 - £22,299,000; 30 June 2016 - £21,404,000) has therefore been deemed Class A.

10. Transaction with the Manager

The Company has an agreement with Standard Life Investments (Corporate Funds) Limited ('SLI') for the provision of management services. During the six months ended 31 December 2016 the management fee paid to SLI was charged applying the rate of 0.85% to the first £250m of total assets, reduced to 0.65% on total assets above this threshold. The contract is terminable by either party on six months (previously twelve months) notice.

During the period £1,187,000 (31 December 2015 - £1,163,000) of investment management fees were earned by the Manager, with a balance of £599,000 (31 December 2015 - £1,163,000) due to SLI.

SLI also receive fees for secretarial and administrative services at (i) £110,000 per annum and (ii) 0.02 percent of the net asset value of the Company in excess of £70,000,000 (the net asset value of the Company being as shown in the annual accounts of the Company) to a maximum of £150,000 exclusive of VAT.

Notes to the Financial Statements

During the period £91,000 (31 December 2015 - £97,000) of fees were earned by SLI. The balance due to SLI at the period end was £46,000 (31 December 2015 - £89,000).

11. Half-Yearly Report

The financial information in this report does not constitute statutory accounts as defined in Sections 434 - 436 of the Companies Act 2006. The financial information for the year ended 30 June 2016 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditors on those accounts contained no qualification or statement under Section 498 (2), (3) or (4) of the Companies Act 2006. The interim accounts have been prepared using the same accounting policies as the preceding annual accounts.

12. This Half-Yearly Report was approved by the Board on 24 February 2017.

Directors' Responsibility Statement

The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with applicable laws and regulations. The Directors confirm that to the best of their knowledge –

- the condensed set of Financial Statements have been prepared in accordance with the Accounting Standards Board's statement "Half-Yearly Financial Reports"; and
- the Interim Management Report includes a fair review of the general conditions required by 4.2.7R and 4.2.8R of the Financial Conduct Authority's Disclosure and Transparency Rules.

The Half-Yearly Financial Report, for the six months ended 31 December 2016, comprises an Interim Management Report, in the form of the Chairman's Statement, the Directors' Responsibility Statement and a condensed set of Financial Statements, which has not been audited or reviewed by the auditors pursuant to the APB guidance on Review of Interim Financial Information.

For and on behalf of the Directors of Standard Life UK Smaller Companies Trust plc.

David Woods

Chairman

24 February 2017

Company Information and Contact Details

Directors
David Woods (Chairman)
Allister Langlands (Chairman, Audit and Management Engagement Committee)
Carol Ferguson (Senior Independent Director)
Caroline Ramsay
Tim Scholefield

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