24 September 2015

# THE MERCHANTS TRUST PLC
# Half-yearly financial report
## For the six months ended 31 July 2015

## Highlights

- Net dividends declared in the first six months of 2015/16 are 12.0p per share, an increase of 1.7% over the payments in the first half of the previous year.

- Ordinary shares yield 5.7% at 415.3p, compared with 4.1% on the FTSE 100 Index at the close of business on 22 September 2015.

- The NAV returns were as follows:

| | At 31 July 2015 | At 31 January 2015 | Capital return % change | Total return % change |
|---|---|---|---|---|
| Net Asset Value per ordinary share (debt at par) | 511.7p | 516.9p | -1.0 | +1.3 |
| Net Asset Value per ordinary share (debt at market value) | 487.9p | 486.1p | +0.4 | +2.8 |
| Ordinary share price | 466.8p | 484.0p | -3.6 | -1.1 |
| FTSE 100 Index | 6,696.3 | 6,749.4 | -0.8 | +1.2 |
| Discount of ordinary share price to net asset value (debt at par) | -8.8% | -6.4% | - | - |
| Discount/Premium (debt at market value) | -4.3% | -0.4% | - | - |

## Interim management report

**Half year results**
We are pleased to report that the company achieved a positive total return due to the income generation of the portfolio and stock selection which more than offset the small negative capital performance on the FTSE 100 Index. This is demonstrated in the attribution analysis set out below and described in more detail in the fund manager's report.

**Interim dividends**
The board has declared a second quarterly dividend of 6.0p per ordinary share, payable on 12 November 2015 to shareholders on the register at close of business on 9 October 2015. The total distribution declared for the first half of 2015/16 is 12.0p net, an increase of 1.7% over the first two dividends paid last year. As at 31 July 2015, the company's revenue reserve, after deducting the first and second quarterly dividends, represented 12.7p per share (2014 – 13.2p).

**AIC Information to Shareholders Award**
We were delighted to win the award for the Best Report and Accounts, Generalist in the AIC's Information to Shareholders Awards this year.

**Net revenue**
Earnings in the first six months of the current year, to 31 July 2015, were 14.14p per ordinary share (2014 – 13.61p).

**Net asset value – capital basis**
As at 31 July 2015, the NAV per ordinary share (with debt at par) was 511.7p and the NAV per ordinary share (with debt at market value) was 487.9p. On a capital basis, the NAV per ordinary share (with debt at par) decreased by 1.0% since the end of the last financial year, whereas the NAV per ordinary share (with debt at market value) increased by 0.3%, compared with the benchmark, the FTSE 100 Index which fell by 0.8%.

**Net asset value - total return basis**
The total return reflects both the change in net asset value per ordinary share and the net ordinary dividends paid. For the six months to 31 July 2015, the NAV per ordinary share (with debt at par) increased

by 1.3% and the NAV per ordinary share (with debt at market value) increased by 2.8%, whilst the FTSE 100 Index increased by 1.2%.

**Material events and transactions**
At the annual general meeting of the company, all the resolutions put to shareholders were passed.

The third quarterly dividend of 6.0p per share was paid on 25 February 2015 to shareholders on the register on 30 January 2015. A final dividend of 6.0p per share was paid on 22 May 2015 to shareholders on the register on 24 April 2015. The total paid and declared for the year ended 31 January 2015 was 23.8p.

There were no buy backs of shares, shares issuances and no related party transactions in the period.

Since the period end, the first quarterly dividend for the year ending 31 January 2016 of 6.0p per share was paid on 14 August 2015 to shareholders on the register on 17 July 2015.

**Buybacks and share issuances**
In the Annual Report we explained our approach to the issuance of new shares when the Company's ordinary shares are trading at a premium to NAV with debt at market value and also our proposal to buy back shares for holding in treasury to help dampen share price volatility when it is at a sustained discount to NAV. Since the approval of this programme was given by shareholders at the AGM in May this year we have seen the shares priced at a modest discount (averaging 3% since 20 May) through periods of market volatility which has not given rise to any issuances or buybacks.

**Gearing**
The company continues to have long-term debt amounting to £110million. At the end of the period our gearing level was 20.1% compared to 19.9% at 31 January 2015. The gearing is in the form of structural long term debt, primarily consisting of two long term debentures, the first of which matures in 2018 and the second in 2023, and secured bonds maturing in 2029. Since 31 July 2013, the debt has been valued using a formulaic approach by adding a margin, derived from the spread of BBB UK corporate bond yields over gilt yields, to the yield of the relevant reference gilt. All debt is deployed in the market for investment purposes.

As illustrated in the table below, the portfolio outperformed the index by 0.8% during the period, with the gearing contributing a further +0.6% to the total return. A combination of a positive pull to par benefit from the debt moving closer to maturity (£34 million matures in January 2018) and movements in the price of debt added +1.4% to the total return. However there are costs involved in servicing this debt, and this had a negative impact of -0.9% on the total return.

| **Performance attribution analysis against FTSE 100 Index** | **Capital return %** | **Income return %** | **Total return %** |
|---|---|---|---|
| Return of Index | -0.8 | 2.0 | 1.2 |
| Relative return on portfolio | 0.4 | 0.4 | 0.8 |
| **Return of portfolio** | -0.4 | 2.4 | 2.0 |
| Impact of gearing on portfolio | -0.2 | 0.8 | 0.6 |
| Movement in fair value of debt | 1.4 | - | 1.4 |
| Finance costs | -0.6 | -0.3 | -0.9 |
| Management fee | -0.1 | -0.1 | -0.2 |
| Administration expenses | - | -0.1 | -0.1 |
| Other | 0.3 | -0.3 | - |
| **Change in net asset value per ordinary share (debt at market value)** | 0.4 | 2.4 | 2.8 |

**Prospects**
The UK economy is gradually recovering, with a similar picture in the USA and some improvement in Europe, although emerging markets are more difficult. Recent weakness has brought the equity market to a cheaper level, with our manager able to identify a greater number of promising investment opportunities across a range of sectors. The company remains focused on delivering long term dividend and capital growth, through investing in a diversified portfolio of predominantly large cap UK equities.

Simon Fraser
Chairman
199 Bishopsgate
London EC2M 3TY

24 September 2015

## Principal Risks and Uncertainties

The principal risks and uncertainties facing the company are as follows:

• Investment Activity and Strategy including Gearing and Market Volatility – An inappropriate investment strategy, e.g., on stock selection or the level of gearing, may lead to significant under-performance against the company's benchmark index and peer group companies, and may also result in the company's shares trading on a wider discount;
• Corporate Governance and Shareholder Relations and Marketing – If there is weak adherence to best practice in corporate governance shareholder discontent could arise resulting in potential reputational damage to the company. Inadequate marketing and communication about the company could result in selling of the shares and a significant impact on the rating of the company.
• Financial and Regulatory – Failure to contain financial risks could result in losses to the company. Failure to comply with relevant regulations could damage the company and its ability to continue in business.
• Operational – The company is dependent on third parties for the provision of all systems and services and there are risks of control failures and gaps in these systems and services resulting in loss or damage to the company.

The board's approach to mitigating these risks and uncertainties is set out in the annual financial report. In the board's view these will remain the principal risks and uncertainties for the six months to 31 January 2016.

## Responsibility statements

The directors confirm to the best of their knowledge that:

•The condensed set of financial statements contained within the half-yearly financial report has 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 information required by Disclosure and Transparency Rule 4.2.7 R of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
•The interim management report includes a fair review of the information concerning related parties transactions as required by the Disclosure and Transparency Rule 4.2.8 R.

Simon Fraser
Chairman

24 September 2015

## Fund Manager's Report

### Economic and Market Background

The UK economy continued to record steady, if only moderate, economic growth in the first half of 2015. Unemployment was stable at around 5.6% with signs of rising wage pressure starting to emerge. However there was little follow through into consumer price inflation which remained close to zero, helped by falling energy prices.

Financial markets had to cope with several major geopolitical and macro-economic risks. These included a UK general election, which led to a surprise majority Conservative government for the first time in 18 years; a "NO" vote in a Greek referendum on a bail-out package, swiftly followed by agreement with Greece's creditors; significant uncertainty about the economic outlook in China and other emerging markets, with wild swings in the Chinese equity market; and depressed oil and other commodity markets, leading to massive retrenchment in spending by natural resource companies.

Throughout all of this the FTSE 100 Index of leading companies traded in a limited range. It hit an all-time high of just over 7100 in late April, ahead of the election, then fell back to 6400 in early July, before rallying back towards 6700 at the end of the period. Overall, the FTSE 100 index produced a total return of 1.2%. The FTSE 250 Index of medium sized companies outperformed significantly, with a return of 10.0%. Mid-caps benefited from a greater exposure to the domestic economy, where the general election boosted investor confidence, and from a far lower exposure to oil and mining companies, which were a big drag on the FTSE 100 Index returns.

Within the stock market the best performing sectors were broadly spread, including construction, household goods, general retail, non-life insurers, fixed line telecoms and banks. Commodity sectors were depressed with the mining sector producing a double digit negative return and related engineering sectors also weak. Smaller negative returns were seen in the beverages, utilities and oil & gas producer sectors.


### Performance

The Trust's investment portfolio produced a total return of 2.0%, excluding the effects of gearing. This was ahead of the 1.2% return on the benchmark FTSE 100 Index. The table below shows the stocks which made the biggest positive and negative contribution to the outperformance. Several of the Trust's recovery situations and medium sized companies performed well, with the largest positive drivers coming in consumer sectors, such as travel & leisure and general retail.

At **Mothercare**, improved trading in their troubled UK operation gave investors confidence that the recovery is on track, highlighting the significant value in their overseas franchise operation. The shares rose 50% in the period. Other strong consumer stocks included **Carnival Corporation** and **Cineworld** which both delivered strong results. Elsewhere, we saw good growth at the staffing firm **SThree**, despite a slowdown in recruitment in the energy sector, and gains from the construction and building materials companies **Kier** and **CRH**. **Inmarsat** shares remained strong, as hopes built for their next generation satellite communications network. **Standard Life** also outperformed as they returned capital after selling their

Canadian business. The portfolio also benefited from not owning the mining company, Rio Tinto and the pharmaceutical firm, AstraZeneca, which both fell and held back the index return.

The main negative performance contributors were stocks that were not owned, or underweight, in the portfolio but which performed well, helping to boost the index return. Two banks, Lloyds and Barclays, as well as BG headed the list. Investor sentiment towards the domestic UK banks has been recovering as the industry gradually emerges from a prolonged period of restructuring under increasing regulatory scrutiny. BG was boosted by an agreed takeover offer from Royal Dutch Shell. Elsewhere Shire, Vodafone, Reckitt Benckiser and BT were also strong performers that were not owned by the Trust. A few portfolio shares were weak. The copper miner **Antofagasta** impacted performance as the shares continued to slide, with the weak copper price, after our initial purchase. Persistent trading difficulties also hit **Tate & Lyle** shares, whilst the **Pennon** share price gave back some of last year's strong performance.

**Table of Estimated Contribution to Investment Performance Relative to FTSE 100 Index 31 January 2015 to 31 July 2015**

| Positive Contribution | % | over/under weight | Negative Contribution | % | over/under weight |
|---|---|---|---|---|---|
| Mothercare | 0.4 | + | Barclays | -0.5 | - |
| Carnival | 0.4 | + | BG | -0.4 | - |
| SThree | 0.4 | + | Lloyds | -0.4 | - |
| Rio Tinto | 0.3 | - | Antofagasta | -0.3 | + |
| Inmarsat | 0.3 | + | Shire | -0.3 | - |
| Kier | 0.3 | + | Tate & Lyle | -0.3 | + |
| Standard Life | 0.3 | + | Vodafone | -0.2 | - |
| AstraZeneca | 0.3 | - | Reckitt Benckiser | -0.2 | - |
| CRH | 0.3 | + | BT | -0.2 | - |
| Cineworld | 0.3 | + | Pennon | -0.2 | + |

**Portfolio Changes**

The biggest change to the structure of the portfolio took place in July when we purchased new positions in two banks, **Lloyds** and **Barclays**. The banking industry has been through major restructuring since the global financial crisis. Banks are now more tightly regulated and operate with higher capital requirements, lower leverage and other structural changes. There have been numerous fines and compensation payments for prior unethical behaviour, such as mis-selling payment protection insurance, and banks are subject to higher levies and taxes. These issues are ongoing and likely to lower returns into the medium term. However the industry is gradually emerging from this difficult period. Profitability is recovering and the trading environment in the core UK retail market is relatively stable.

The largest investment was in **Lloyds**, which is once again making good financial returns and has returned to paying dividends. It has a strong market position in the attractive UK retail and corporate banking markets. Although the valuation has recovered somewhat since the recession, we see scope for a continued revaluation as confidence builds in the bank's ability to grow, which should also support strong dividend growth. It can also be argued that highly regulated banks, carrying greater levels of capital, should be more stable in the future and can sustain a higher valuation, although this is not necessary to justify investing at this point.

**Barclays** has further to go in restructuring its investment bank and shrinking its non-core activities. However it owns the highly valuable Barclaycard business, an attractive African franchise and strong UK retail and commercial operations. The valuation of Barclays is lower than Lloyds, reflecting more depressed profitability and the on-going restructuring challenge, but the upside is potentially greater in the medium term.

We added one other new investment to the portfolio, the copper miner **Antofagasta**. The mining sector has seen a massive sell-off as commodity prices have collapsed. Demand for commodities has not met earlier expectations as economic growth has slowed, particularly in China, whilst new mine supply has built up, after long lead times, in response to investment decisions made in a better environment. Whilst we remain nervous about the outlook for many commodities, most notably iron ore, the fundamentals of the copper market look better. Demand for copper is diversified, and not wholly dependent upon infrastructure and property spending in China, where the pressure is greatest. Also, it is increasingly difficult and expensive to bring new copper mine supply into the market due to geological factors, water and power shortages and other issues, which should support copper prices in the medium term. Antofagasta is a low cost Chilean copper producer with a strong balance sheet. The shares have more than halved since their peak in 2010 and offer good value on a long term view.

As well as these new investments we added to a number of existing positions. As we highlighted in the annual report, we see good value in several "mega-caps" and we have added to the **HSBC** and **GlaxoSmithKline** positions. Glaxo, in particular, looks attractive after completing an asset swap with Novartis that gives it world leading positions in consumer health and vaccines, two high quality businesses with strong competitive advantages. We also added to several recovery situations, where we think that increasingly short term investor behaviour has taken share prices below their long term worth. Examples included **Brammer**, **Tate & Lyle**, **Sainsbury (J)**, **Ashmore** and **Kier**.

We sold two companies completely out of the portfolio. Shares in **Unilever**, the consumer goods company, have performed very well and reached a valuation that we could no longer justify, even taking account of the quality of the business, so we sold out at the end of the period. We also sold **Hammerson**, the property company, which has been significantly re-valued since our purchase. The shares were trading near to their asset value, based upon an underlying property yield under 5%, close to historic peak levels. Elsewhere we took profits in a number of different stocks, particularly in the mid-cap part of the market after strong performance. This included consumer stocks like **Marks & Spencer**, **Cineworld**, **Britvic**, **Mothercare** and **Carnival Corporation**, as well as financials like **IG Group**, **ICAP** and **Segro**.

**Derivatives Strategy**

The Trust operates a covered call strategy on a limited proportion of the portfolio to generate additional income. In "writing" or selling an option the Trust gives the purchaser the right to buy a specific number of shares in a company at an agreed "strike" price within a fixed period. In exchange the Trust receives an option premium which is taken to the revenue account. The Trust gets the full benefit of any move in the share price up to the strike price but not beyond. If the share price rises above the strike price there is a potential "opportunity" cost (but not a cash cost) to the Trust as the option holder can exercise their option to buy the shares at the strike price.

The option strategy once again delivered its primary objective of income generation, with approximately £430,000 of option premium accrued. The strategy was also modestly profitable overall after taking account of the opportunity costs incurred from option exercises. Option activity was at a slightly higher level than last year as volatility picked up, providing several attractive situations.

**Outlook**

The UK and US economies are gradually recovering, although growth is below the long term trend and poor productivity growth is a concern. Inflation has been virtually zero, held back by weak commodity prices, but wage pressure is starting to build and future changes to the National Living Wage will raise UK employment costs over the next few years. European economies are further behind the Anglo Saxon world but activity is also picking up. However emerging markets are more problematic, with Chinese activity subdued and commodity exporters like Brazil and Russia under severe pressure.

With the UK and US economic recoveries now more entrenched, we believe we are entering a tightening phase of the interest rate cycle. This follows a prolonged period in which interest rates have been held at rock-bottom levels. The first rate rise may have some impact on the way investors price financial assets and such fears may explain part of the recent market volatility. However, we would expect interest rate increases to be relatively modest and to take place over a protracted period. This is due to the high level of debt in the system which makes economic growth potentially very sensitive to interest rate changes.
The sharp sell-off in commodity prices, most notably oil, may give a boost to economic growth in non-producing countries in the medium term, but it also partly reflects weaker than expected demand, especially in China, which has been the biggest driver of commodity usage in recent years.

Our overall view of the prospects for UK equities has improved with the latest market setback. At the time of writing the FTSE 100 Index has fallen below the bottom end of its recent trading range as equity markets worldwide have responded to rising concerns over Chinese and world economic growth and emerging market currency instability. UK equities now represent solid value in aggregate. However there is a wide spread of valuations. Investors seem to be taking increasingly short term views on stocks, pushing relative valuations to extreme levels. This is creating opportunities for those with a longer term perspective.
In particular investors have pushed up the price of perceived safe stocks, such as food and consumer goods companies, prime property companies and those businesses delivering solid profits growth. We see little value in these areas of the market and we are concerned that rising interest rates might undermine the valuation case for stocks that are priced in reference to low government bond yields. Conversely, sectors where there are obvious short term difficulties like oil and mining are very depressed. In addition, companies that have disappointed expectations have typically been de-rated significantly.

We see good value in the oil & gas sector with emerging opportunities in mining. We also see good value in a number of recovery situations where the long term business franchise is under-priced due to short term uncertainty. One area we would highlight is the very largest companies, the mega-caps, which investors have shunned in favour of mid-cap shares. The Trust has big positions in **BP**, **Shell**, **GlaxoSmithKline** and

**HSBC**, which look particularly attractive. They all have high dividend yields, robust balance sheets, modest valuations and scope to significantly improve financial performance in the next few years.

Other key positions in the portfolio reflect businesses with good long term growth prospects that are underappreciated in their valuations. Here we would include **United Business Media** an exhibitions organiser, **Inmarsat**, a satellite communications company, the life insurance company **Standard Life** and **SThree**, a specialist staff recruitment company.

**Dividends**

There should be modest dividend growth in the UK stock market this year, assisted by a stronger US dollar as many dividends are declared in dollars. Whilst companies are generally in robust financial health, there are a number of industries suffering difficult trading conditions leading to flat dividends or, in some cases, dividend cuts. In the financial sector, we are seeing strong dividend growth in the life assurance sector, whilst dividends are likely to gradually recover in the banking sector as new regulatory capital requirements are exceeded.

Simon Gergel
Allianz Global Investors

## THE MERCHANTS TRUST PLC

**Twenty Largest Equity Holdings as at 31 July 2015**

| | Market Value £'000s | Total Assets %* | Principal Activity |
|---|---|---|---|
| Royal Dutch Shell 'B' | 47,039 | 7.06 | Oil & Gas Producers |
| GlaxoSmithKline | 44,100 | 6.61 | Pharmaceuticals & Biotechnology |
| HSBC | 43,951 | 6.59 | Banks |
| BP | 31,622 | 4.74 | Oil & Gas Producers |
| British American Tobacco | 30,989 | 4.65 | Tobacco |
| UBM | 29,921 | 4.49 | Media |
| Lloyds Banking Group | 19,968 | 3.00 | Banks |
| Inmarsat | 17,992 | 2.70 | Mobile Telecommunications |
| National Grid | 17,563 | 2.63 | Gas, Water & Multi-utilities |
| BAE Systems | 16,086 | 2.41 | Aerospace & Defence |
| SThree | 15,773 | 2.37 | Support Services |
| Standard Life | 15,546 | 2.33 | Life Insurance |
| Centrica | 15,539 | 2.33 | Gas, Water & Multi-utilities |
| Amec Foster Wheeler | 15,006 | 2.25 | Oil Equipment, Services & Distribution |
| Pennon | 14,679 | 2.20 | Gas, Water & Multi-utilities |
| CRH | 14,676 | 2.20 | Construction & Materials |
| SSE | 14,534 | 2.18 | Electricity |
| Aviva | 13,733 | 2.06 | Life Insurance |
| Carnival | 13,731 | 2.06 | Travel & Leisure |
| Hansteen | 12,814 | 1.92 | Real Estate Investment Trusts |
| | 445,262 | 66.78 | |

* Total assets include current liabilities

**Portfolio Analysis as at 31 July 2015**

| Sector | Market Value | Total Assets %** |
|---|---|---|
| Financials | 157,657 | 23.65 |
| Consumer Services | 114,419 | 17.16 |
| Oil & Gas | 93,667 | 14.05 |
| Industrials | 89,770 | 13.46 |
| Utilities | 62,315 | 9.35 |
| Consumer Goods | 62,259 | 9.34 |
| Health Care | 44,100 | 6.61 |
| Basic Materials | 19,116 | 2.87 |
| Telecommunications | 17,992 | 2.70 |
| Net Current Assets | 5,422 | 0.81 |
| | 666,717 | 100.00 |

** Total assets include current liabilities

As at 31 July 2015 call options were written over 3.0% of the portfolio. During the period, income generated from call options amounted to £426,020.

## THE MERCHANTS TRUST PLC

## Summary of Unaudited Results

**INCOME STATEMENT**
For the six months ended 31 July 2015

| | Revenue £'000s | Capital £'000s | 2015 Total Return £'000s |
|---|---|---|---|
| | | | (Note 1) |
| Net losses on investments at fair value | - | (4,173) | (4,173) |
| Income from investments | 17,277 | - | 17,277 |
| Other income | 506 | - | 506 |
| Investment management fee | (413) | (768) | (1,181) |
| Administrative expenses | (340) | (1) | (341) |
| **Net profit (loss) before finance costs and taxation** | 17,030 | (4,942) | 12,088 |
| Finance costs: interest payable and similar expenses | (1,659) | (3,041) | (4,700) |
| **Net profit (loss) on ordinary activities before taxation** | 15,371 | (7,983) | 7,388 |
| Taxation | - | - | - |
| **Net profit (loss) attributable to ordinary shareholders** | 15,371 | (7,983) | 7,388 |
| **Net earnings (loss) per ordinary share (Note 4)** (basic and diluted) | 14.14p | (7.34p) | 6.80p |

| **BALANCE SHEET** As at 31 July 2015 | **2015 £'000s** |
|---|---|
| **Fixed Assets** | |
| Investments at fair value through profit or loss | 661,295 |
| Net current assets | 5,422 |
| **Total assets less current liabilities** | 666,717 |
| Creditors - amounts falling due after one year | (110,368) |
| **Total net assets** | 556,349 |
| | |
| Called up share capital | 27,182 |
| Share premium account | 33,718 |
| Capital redemption reserve | 293 |
| Capital reserve | 468,272 |
| Revenue reserve | 26,884 |
| **Shareholders' funds** | 556,349 |
| | |
| **Net asset value per ordinary share** | 511.7p |

The net asset value is based on 108,728,464 ordinary shares in issue at 31 July 2015.

# THE MERCHANTS TRUST PLC

## Summary of Unaudited Results

**INCOME STATEMENT**
For the six months ended 31 July 2014

| | Revenue £'000s | Capital £'000s | 2014 Total Return £'000s |
|---|---|---|---|
| | | | (Note 1) |
| Net gains on investments at fair value | - | 8,099 | 8,099 |
| Income from investments | 16,250 | - | 16,250 |
| Other income | 456 | - | 456 |
| Investment management fee | (406) | (753) | (1,159) |
| Administrative expenses | (411) | (1) | (412) |
| **Net profit before finance costs and taxation** | 15,889 | 7,345 | 23,234 |
| Finance costs: interest payable and similar expenses | (1,663) | (3,049) | (4,712) |
| **Net profit on ordinary activities before taxation** | 14,226 | 4,296 | 18,522 |
| Taxation | - | - | - |
| **Net profit attributable to ordinary shareholders** | 14,226 | 4,296 | 18,522 |
| **Net earnings per ordinary share (Note 4)** | | | |
| (basic and diluted) | 13.61p | 4.11p | 17.72p |

| **BALANCE SHEET** As at 31 July 2014 | 2014 £'000s |
|---|---|
| **Fixed Assets** | |
| Investments at fair value through profit or loss | 647,990 |
| Net current assets | 6,332 |
| **Total assets less current liabilities** | 654,322 |
| Creditors - amounts falling due after one year | (110,569) |
| **Total net assets** | 543,753 |
| Called up share capital | 26,316 |
| Share premium account | 18,294 |
| Capital redemption reserve | 293 |
| Capital reserve | 472,534 |
| Revenue reserve | 26,316 |
| **Total shareholders' funds** | 543,753 |
| **Net asset value per ordinary share** | 516.6p |

The net asset value is based on 105,263,464 ordinary shares in issue at 31 July 2014.

| **BALANCE SHEET**<br>As at 31 January 2015 | **2015**<br>**£'000s** |
|---|---|
| **Fixed Assets** | |
| Investments at fair value through profit or loss | 666,056 |
| Net current assets | 6,425 |
| **Total assets less current liabilities** | 672,481 |
| Creditors - amounts falling due after one year | (110,472) |
| **Total net assets** | 562,009 |
| | |
| Called up share capital | 27,182 |
| Share premium account | 33,718 |
| Capital redemption reserve | 293 |
| Capital reserve | 476,255 |
| Revenue reserve | 24,561 |
| **Total shareholders' funds** | 562,009 |
| | |
| **Net asset value per ordinary share** | 516.9p |

The net asset value is based on 108,728,464 ordinary shares in issue at 31 January 2015.

# THE MERCHANTS TRUST PLC

## STATEMENT OF CHANGE IN EQUITY

| | Called Up Share Capital £'000s | Share Premium Account £'000s | Capital Redemption Reserve £'000s | Capital Reserve £'000s | Revenue Reserve £'000s | Total £'000s |
|---|---|---|---|---|---|---|
| **Six months ended 31 July 2015** | | | | | | |
| Net assets at 1 February 2015 | 27,182 | 33,718 | 293 | 476,255 | 24,561 | 562,009 |
| Revenue profit | - | - | - | - | 15,371 | 15,371 |
| Dividends on ordinary shares | - | - | - | - | (13,048) | (13,048) |
| Capital loss | - | - | - | (7,983) | - | (7,983) |
| Shares issued during the period | - | - | - | - | - | - |
| Net assets at 31 July 2015 | 27,182 | 33,718 | 293 | 468,272 | 26,884 | 556,349 |
| | | | | | | |
| **Six months ended 31 July 2014** | | | | | | |
| Net assets at 1 February 2014 | 25,916 | 10,653 | 293 | 468,238 | 24,378 | 529,478 |
| Revenue profit | - | - | - | - | 14,226 | 14,226 |
| Dividends on ordinary shares | - | - | - | - | (12,288) | (12,288) |
| Capital profit | - | - | - | 4,296 | - | 4,296 |
| Shares issued during the period | 400 | 7,641 | - | - | - | 8,041 |
| Net assets at 31 July 2014 | 26,316 | 18,294 | 293 | 472,534 | 26,316 | 543,753 |

# THE MERCHANTS TRUST PLC

**CASH FLOW STATEMENT**
for the six months ended 31 July 2015 and comparative periods

| | Six Months to 31 July 2015 £'000s | Six Months to 31 July 2014 £'000s |
|---|---|---|
| **Operating activities** | | |
| Net profit before finance costs and taxation | 12,088 | 23,234 |
| Less: Net losses (gains) on investments at fair value | 4,173 | (8,099) |
| Increase in payables | (34) | (200) |
| Increase (decrease) in receivables | 435 | (657) |
| Purchase of fixed asset investments | (72,497) | (72,954) |
| Sales of fixed asset investments | 74,738 | 65,889 |
| **Cash flow from operations** | 18,903 | 7,213 |
| Interest paid | (4,796) | (4,793) |
| Dividends paid on cumulative preference stock | - | (43) |
| **Net cash inflow from operating activities** | **14,107** | **2,377** |
| **Financing activities** | | |
| Dividends paid on ordinary shares | (13,048) | (12,288) |
| Proceeds from issue of ordinary shares | - | 8,058 |
| Share issue costs | - | (17) |
| **Cash outflow from financing activities** | **(13,048)** | **(4,247)** |
| **Increase (decrease) in cash and cash equivalents** | **1,059** | **(1,870)** |
| Cash and cash equivalents at the start of the period | 8,654 | 8,083 |
| Cash and cash equivalents at the end of the period | 9,713 | 6,213 |
| **Comprised of:** | | |
| Cash at bank | 9,713 | 6,213 |

The presentation of the Cash Flow Statement has been changed in accordance with FRS102. See Note 2.

**Note 1 – Financial Statements**

The half-yearly financial report has been neither audited nor reviewed by the company's auditors. The financial information for the year ended 31 January 2015 has been extracted from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The total return column of the Income Statement is the profit and loss account of the company.

All revenue and capital items derive from continuing operations. No operations were acquired or discontinued in the period.

Allianz Global Investors GmbH, UK Branch (AGI UK), acts as Investment Manager to the company. Details of the services and fee arrangements are given in the latest annual financial report of the company, which is available on the company's website at www.merchantstrust.co.uk.

**Note 2 – Accounting Policies**

For the year ending 31 January 2016 the company is applying, for the first time, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102), which forms part of revised Generally Accepted Accounting Practice ('New UK GAAP') issued by the Financial Reporting Council in 2012 and 2013.

The condensed set of financial statements has been prepared on a going concern basis in accordance with FRS 102, 'Interim Financial Reporting' (FRS 104) issued by the FRC in March 2015 and the revised Statement of Recommended Practice – 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SORP) issued by the Association of Investment Companies (AIC) in November 2014.

As a result of the first time adoption of 'New UK GAAP' (FRS 102) and the revised SORP, comparative amounts and presentation formats have been amended where required, principally in relation to the Cash Flow Statement and the Fair Value Hierarchy disclosure (note 5). The net profit (loss) attributable to ordinary shareholders and equity shareholder's funds remain unchanged from the old UK GAAP basis, as reported in the preceding annual and interim reports.

The accounting policies applied for the condensed set of financial statements with regard to measurement and classification have not changed from those set out in the company's Annual Report for the year ended 31 January 2015. In particular the company has considered the possible changes brought about through sections 11 and 12 of FRS 102 in relation to financial instruments, and is satisfied the previous accounting policies relating to the disclosure and measurement of financial instruments are appropriate. References to prior, individual Financial Reporting Statements (FRS) should now be taken to reference FRS 102.

**Note 3 – Dividends on Ordinary Shares**

Dividends paid on ordinary shares in respect of earnings for each period are as follows:

| | Six months to 31 July 2015 £'000s | Six months to 31 July 2014 £'000s |
|---|---|---|
| Third Interim dividend 6.00p paid 25 February 2015 (2014 – 5.90p) | 6,524 | 6,110 |
| Final dividend 6.00p paid 22 May 2015 (2014 – 5.90p) | 6,524 | 6,178 |
| | 13,048 | 12,288 |

In accordance with FRS 102 Section 32 ' Events After the End of the Reporting Period', dividends payable at the period end have not been recognised as a liability.

**Note 4 – Earnings per Ordinary Share**

The earnings (loss) per ordinary share have been calculated using a weighted average number of shares in issue during the period of 108,728,464 shares (31 July 2014 – 104,564,291 shares).

**Note 5 - Fair Value Hierarchy**

The company's investments and derivatives financial instruments, as disclosed in the company's Balance Sheet, are valued at fair value.

The fair value as at the reporting date has been estimated using the following fair value hierarchy:
Level (a) Quoted prices for identical instruments in active markets
Level (b) Prices of a recent transaction for identical instruments
Level (c) Valuation techniques that use:
    (i) Observable market data or
    (ii) Non-observable data

The analysis of the valuation basis for the financial instruments based on the hierarchy is as follows:

| | Six months ended 31 July 2015 £ | Six months ended 31 July 2014 £ | Year ended 31 January 2015 £ |
|---|---|---|---|
| Level (a) | 661,127 | 647,926 | 665,718 |
| Level (c) (ii) | 28 | 28 | 28 |
| | 661,155 | 647,954 | 665,746 |

For exchange listed equity investments the quoted price is either the bid price or the last traded price depending on the convention of the relevant exchange. For written options the value of the option is marked to market based on traded prices. Financial instruments valued based on valuation techniques (level (c )(ii) have, in the absence of relevant trading prices or market data, been valued based on the directors' best estimate.

**Note 6 – Status of the Company**

The company applied for and was accepted as an approved investment trust for accounting periods commencing on or after 1 February 2012, subject to it continuing to meet eligibility conditions at section 1158 Corporation Taxes Act 2010 and the on-going requirements for approved companies in Chapter 3 Part 2 Investment Trust (Approved Company) (Tax) Regulations 2011 (Statutory Instrument 2011/2999).

**Note 7 – Transactions with the Investment Manager and related parties**

As disclosed in the annual financial report, the existence of an independent board of directors demonstrates that the company is free to pursue its own financial and operating policies and therefore, under FR 102, section 35: Related Party Disclosures, the investment manager is not considered to be a related party. The company's related parties are its directors.

There are no other identifiable related parties as at 31 July 2015, 31 July 2014 and 31 January 2015.

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