The Alliance Trust PLC

Report & Accounts

SC001731

for the year ended 31 January 2005

The Alliance Trust PLC

Contents

Directors' Report

The directors present their report and the audited accounts of The Alliance Trust PLC and its subsidiary undertakings for the year ended 31 January 2005.

The main topics covered are listed at the start of each section.

In this report The Alliance Trust PLC is referred to as the 'Alliance Trust' and the 'Company'. References to 'Group' are to the Alliance Trust and its subsidiary undertakings.

'ATS' refers to Alliance Trust Savings Limited, the financial services subsidiary of the Company.

Financial Summary (Company)

One Year Analysis		31 January 2005 Pence per ordinary stock unit	31 January 2004 Pence per ordinary stock unit	Change
Dividend for the year		**71.75**	70.5	1.8%
Net asset value		**3216.5**	2921.5	10.1%
Stock price†		**2741.0**	2605.0	5.2%
Return	Earnings	**75.0**	75.4	
	Capital	**291.7**	531.5	
	Total	***366.7***	*606.9*	

	31 January 2005	31 January 2004
Discount§	**14.8%**	10.8%
Total expense ratio+	**0.33%**	0.29%

One and Ten Year Analysis	1 year absolute	10 years absolute	10 years compound
Returns			
Stock price total return†*	8.1%	115.0%	8.0%
Growth			
Earnings	(0.6%)	39.4%	3.4%
Dividend	1.8%	43.5%	3.7%
Net asset value	10.1%	70.6%	5.5%

† Source: Thomson Financial Datastream.

§ Discount at which the stock price stands relative to the net assets of the Company.

+ Total expenses divided by year end net asset value.

* The total return on the stock price shows the theoretical growth in value over one and ten years, assuming that gross dividends are fully reinvested, and ignoring re-investment charges.

The Alliance Trust PLC is an investment company which seeks to achieve its objective by expert investment around the world in a range of assets.

Objective

To be the core investment for those seeking a long term store of increasing value.

History

The Alliance Trust PLC can trace its origins back to the 1870s when various land mortgage companies, including the Oregon and Washington Trust Investment Company, were established in Dundee. In 1888, these companies came together as the Alliance Trust.

- From its start as a leading mortgage provider and land developer in the United States, the Company began also to invest in fixed interest securities.
- By the mid 20th century the Company had divested itself of its land mortgage business, retaining some land and mineral rights in various areas of the United States. By this time the Company was invested largely in equities, both quoted and unquoted, with some debt securities.
- The Company continues to be predominantly an international equity investor, while retaining the power to invest in other asset classes in order to meet its objective.
- The Company is an investment company with investment trust status. It employs its own staff to manage its portfolio of assets. It continues to develop and engages in a broader range of activities than most investment trust companies.

Investment Policy

To achieve the Company's objective, we seek long term growth in both capital and income by;

- Investing in both quoted and unquoted equities across the globe. We are not wedded to any index nor to any rigid geographical, sector or industry asset allocation.
- Investing internationally in preference shares and in debt securities including government and corporate bonds.
- Investing in other assets, including property, cash and other financial instruments and investment vehicles.
- Retaining the ability to borrow, as we have done from time to time, and thereby to gear our portfolio.
- Investing in subsidiary and associated businesses which allow us to expand into other related activities with the objective of enhancing stockholder value. Alliance Trust Savings is an example.

Risks

Investment in any asset has associated risk. The Company limits this through a wide spread of investments. In addition our present low gearing limits our exposure to swings in the market. We retain the ability to use gearing and derivative instruments to enhance and protect returns, but which we recognise may increase risk.

"Investing wisely for generations"

Chairman's Statement

We stand out because of our investment style, because we have our own dedicated in-house investment team and because we own and run a financial services and pensions business.

Results

This year, I am pleased to report a year end increase in net assets together with another increase in dividend. Our net assets have grown by 10.1% and the earnings base has been maintained. We recommend a final dividend of 36.25 pence per ordinary stock unit making a total dividend for the year of 71.75 pence, an increase of 1.25 pence.

Outlook

For the first time, this report and accounts contains a statement from the Chief Executive, Alan Harden, who, with the investment team, has reorganised the way the portfolio is split and managed in order to give increased focus and clear accountability to those who are responsible for managing the Company's assets. We also continue to develop Alliance Trust Savings, an investment which has the potential to generate significant long term value for stockholders. We stand out because of our investment style, because we have our own dedicated in-house investment team and because we own and run a financial services and pensions business. Your board is determined to build upon these special advantages for the benefit of stockholders.

Board

Bruce Johnston retired at last year's AGM, after 13 years on the board, including eight as Chairman. On behalf of all the directors I would like to say how much we appreciate Bruce's long and dedicated service to the Company.

This year we have been fortunate to secure the services of Gordon McQueen, a former executive director of HBOS and Group Treasurer and Finance Director of Bank of Scotland, as a non-executive director. He is unanimously proposed by the directors for appointment by stockholders at the AGM at which Alan Young and I will be standing for re-election. It is also with much appreciation of his commitment to, and deep understanding of, the Company that we say goodbye to William Berry who has been on the board since 1994 and will retire at the AGM. Latterly William has also been our Senior Independent Director and with his retirement the board has elected William Jack, who has been a non-executive director since 2000, to fill that role.

Rejoining the AITC

In October 2004 the Alliance Trust rejoined the Association of Investment Trust Companies ('AITC') of which it was a founder member in 1932. The AITC plays an important role for the investment trust sector as the trade body which provides technical and other support to its members, lobbying on industry issues and setting industry standards. We are delighted to rejoin and become actively involved with it again.

FSA Regulation

In November 2004, the Treasury issued a consultation paper proposing various methods of increased regulation of investment trust companies, including making shares in them regulated 'products' subject to a regulatory framework similar to

Company Record

	The Company's Capital and Income (shown in £millions)			Attributable to Ordinary Stockholders (shown in pence per Ordinary Stock Unit)			
	Total Assets less Current Liabilities	Total Capital Appreciation (Depreciation)	Total Income	Earnings	Capital Appreciation (Depreciation)	Dividend	Net Asset Value
1995	955	(129)	32.7	53.79	(256.15)	50.00	1,885.46
1996	1,228	272	34.4	56.30	539.42	53.00	2,428.18
1997	1,359	130	34.9	58.61	257.08	55.50	2,688.37
1998	1,565	203	38.8	64.89	402.50	59.00	3,096.76
1999	1,730	164	40.1	65.95	324.47	62.50	3,424.68
2000	1,888	156	41.0*	68.86	310.06	64.50	3,739.10
2001	1,976	87	40.3	67.26	172.30	66.50	3,912.15
2002	1,674	(305)	45.0	74.80	(604.73)	68.50	3,313.73
2003	1,206	(469)	43.6	71.63	(930.82)	69.50	2,385.04
2004	1,476	268	46.1	75.40	531.54	70.50	2,921.47
2005	**1,623**	**147**	**47.7**	**74.98**	**291.75**	**71.75**	**3,216.46**

* From 2000, income excludes the associated tax credit.

that for open-ended investment companies. The proposed changes would be costly to implement and would be of no benefit to stockholders, who already enjoy protection under company law and the UK Listing Authority Rules. The proposals also do not reflect the special position of self-managed investment trust companies. We will continue to argue this case with the Treasury as well as contributing to the AITC response.

Annual General Meeting

The Annual General Meeting this year has a busy agenda. Two topics deserve specific mention here.

The Alliance Trust is a self-managed investment trust company, employing executive directors and investment managers on whom it relies for its investment strategy and performance. It is essential that we compete with other employers to attract, motivate and retain skilled and talented staff. The board has introduced a bonus scheme for executive directors and senior staff and at the Annual General Meeting will seek stockholder approval for a long-term Equity Incentive Plan. Benefits under both the annual and long-term schemes will depend on Company and individual performance.

Our Memorandum and Articles of Association go back to the Companies Acts 1862 to 1886 and were last substantially updated in 1930 after the Companies Act 1929 came into force. At the AGM, stockholders will be asked to approve a general modernisation programme to bring us into line with changes in legislation and current practice and to allow us certain practical powers that are common today, for example, to permit our proxy forms to be sent to our registrars and to offer proxy voting in our stock through the CREST settlement system. For clarity and for ease of understanding, we have decided not to amend the current documents but to present new documents for approval in their entirety.

The document which accompanies this report and accounts contains the Notice of the AGM and an explanation of all the resolutions to be proposed, including those to repay the Company's preference stocks as part of the overall modernisation programme.

The AGM is on 29 April 2005 in Dundee. I look forward to meeting stockholders then and I am always happy to hear the views of stockholders about the future of our Company.

Lesley Knox

Chief Executive's Statement

The Alliance Trust has the opportunity to react to changing circumstances in order to deliver added value to stockholders.

During the past year, we have concentrated on creating the conditions that will allow us to grow and benefit from a range of opportunities. We have invested in infrastructure, reorganised how we manage our assets, built up our financial services subsidiary and introduced ways to enhance our performance as individuals and as a company.

As an investment company, the Alliance Trust has the opportunity to react to changing circumstances in order to deliver added value to stockholders. We will draw on this adaptability increasingly as we go forward and seek to use more fully the options available to us for the benefit of our stockholders.

We are investing in our subsidiary, Alliance Trust Savings, in order to develop its financial services activities. ATS began as a means to generate wider access to our stock. This goal has been achieved with more than 17% of the ordinary stock now held through ATS. This subsidiary has developed into a profitable business in its own right as an administrator of customers' investment portfolios and one that, with further investment, has considerable potential to grow.

We will work to realise that potential to generate income for ATS' parent companies while still delivering value to its customers. To increase clarity of purpose, fulfil regulatory demands and meet our business goals, therefore, we will develop the investment company and the financial services company on two different, profitable and complementary tracks. We believe this will be in the long-term interests of stockholders.

I will explore some of these themes in this, my first major report to you.

The Investment Company

The Alliance Trust is an investment company with an extremely flexible investment policy. The Company invests worldwide across a wide variety of sectors and this diversity gives it its strength. Last year saw continuing growth with core income (before special dividends which are unlikely to recur) increasing by 6.4% to £46.9m. Our net assets grew by £149m, an increase of 10.1% over last year.

Expenses

The Alliance Trust has always taken a disciplined approach to total expenses and cost management.

Last year expenses rose by 24.4% to £5.4m bringing our total expense ratio to 0.33%, still among the most favourable in the sector. We believe in investing for the future. We have to modernise our Company to take full advantage of current opportunities. We are strengthening compliance, audit and risk management, which are essential to meet industry best practice in an increasingly regulated environment. We also need to compete and this means growing the Company. We are committed to investing in people and building an infrastructure that meets the highest standards, particularly in information technology, which will form the backbone of our modernised structure and the springboard for future expansion.

This does not mean, however, that we are diluting our focus on costs. Even with increased spending in its last financial year, the Alliance Trust has one of the lowest total expense ratios among the investment trusts in the global growth category. We are committed to investing in our own infrastructure so that we are not left behind by developments and we believe we can position ourselves strongly to deliver value for stockholders and, at the same time, manage costs tightly. We aim to grow our Company and stockholder return consistently while ensuring that our total expense ratio remains in the lowest 25% of our peer group.

Allocation of Assets

During the past year we reorganised the way we manage the Company's assets. On pages 10 and 11 in this report we explain in detail how we allocate corporate capital through a new committee called the Asset, Liability and Income Committee (ALICo).

During the year we also reviewed how we manage the global equity portfolio of the Company. We concluded that we can enhance our performance with a simple and transparent geographical approach. We have already started to see the results of this approach in our home markets. Both the UK Large Cap and UK Small and Mid Cap portfolios had an outstanding year.

Asian Office

The overall review of our Company also led us to identify other ways we can enhance performance in each area to which the corporate capital is allocated.

Asia is an exciting region that presents enormous potential for growth in capital and income and we have been increasing our investments there for some time. At the end of January we owned assets of £241.5m in the region, 15% of our total portfolio. In Asia we face cultural, language and time-zone differences when doing business. Also, many of the companies we invest in now depend significantly on the Chinese, Japanese and other Asian markets. Together, these form a powerful argument for having expertise on the ground to enhance our performance as these markets expand and mature. In the second quarter of 2005 we are, therefore, opening an office in Hong Kong and will be deploying staff from Dundee and locally to look after the relevant parts of the portfolio from that base.

The Asian markets today bear a striking similarity to those in North America where, over a hundred years ago, my predecessors took the courageous decision to invest and ensure that the Company had representatives locally. We are confident that the benefits we can generate by increases in our capital and income in Asia will more than compensate for the related expense and believe this initiative is in line with our overall goal of growing total stockholder return.

Subsidiaries

Last year was a very good year for Group subsidiaries, with an increase in aggregate net income of 29.1% to £5.8m. ATS had another profitable year with income rising by 19.8% to £4.9m. Profit before tax, however, fell to £622,000, down 41.4%, because of increased investment costs. During the year, we made it simpler for customers to invest through ATS and removed some of the hurdles in the terms and conditions. Transactions grew notably after we launched the pricing simplification in July. I would like to take this opportunity to thank those customers of ATS who wrote to me after July suggesting further improvements. We noted all comments and in October we announced that customers would be able to choose variable investment levels within their plans.

We have also started to overhaul the business' solid, but outdated, technology. When this is completed we will be able to meet more of our customers' needs. For example, customers will be able to transact almost all their business using any method they prefer whether online, by post or by telephone. We will also be able to process orders by value rather than by number of shares. We intend to have these services available as quickly as possible. We want our systems to match the superior service already given by ATS staff. That excellence has been recognised this year in customer service awards from Investors Chronicle. We will continue to introduce further improvements to our technical capability over the next two years and because of this in the short term the costs of ATS will increase. We are very excited about the medium and long term growth prospects for ATS business and are convinced that the current level of investment will be more than justified by future returns.

Our People

Our Company's primary resource is our people, with their skills, commitment and excellence. We are developing a 'people plan' that will make us an employer of choice. We want to provide a world-class environment in which our people can succeed. A major ingredient for this is an appropriate and modern remuneration programme. To this end we have introduced a performance based bonus scheme that is designed to reward those who really add value above demanding targets. An important point to note is that reward is indeed results based. Under the senior managers' and executives' incentive plan, if stockholders do not benefit, then staff do not receive performance awards.

Looking Forward

At the end of a very exciting year for all of us at the Alliance Trust we look forward to a future in which we will continue to build on the reputation and excellence of this Company. Next year we will seek to:

- Enhance the performance of the capital and income accounts
- Strengthen the way we manage our equity assets through a clearer geographical focus
- Build a technology platform that helps deliver performance and growth cost-effectively
- Increase the range and reach of the financial services company to take advantage of opportunities in the UK savings market
- Promote our reputation by maintaining the highest standards in everything we do.

Alan J Harden

Total Return

Summary of Group Profit before Tax

Company Revenue and Expenses

Dividend

Capital

Subsidiaries

We began our review of the year by reporting on our financial results.

Total Return

The Company builds value for stockholders through earnings generated on its capital and from capital growth, which we express per ordinary stock unit. This year the earnings return was 74.98 pence, from which we are proposing a dividend of 71.75 pence. The capital return was 291.75 pence.

The total earnings and capital return of 366.73 pence represents a total return of 12.6% on the opening net asset value.

Summary of Group Profit before Tax

	31 January 2005 £000	31 January 2004 £000
Income		
Company	**47,655**	45,504
Subsidiary Companies		
Alliance Trust Savings *	**4,857**	4,055
Alliance Trust (Finance)†	**913**	415
	53,425	49,974
Expenses and Interest		
Company	**(5,435)**	(4,377)
Subsidiary Companies		
Alliance Trust Savings *	**(4,307)**	(2,993)
Alliance Trust (Finance)†	**(4)**	(3)
	(9,746)	(7,373)
Profit before tax	**43,679**	42,601

* Income of Alliance Trust Savings is shown net of interest paid on customer deposits.

† Includes results of Alliance Trust Leasing Limited.

Company Revenue and Expenses

Total income increased by 3.3% to £47.7 million. Underlying dividend growth in the portfolio was strong. However, the impact of this growth was partially reduced by adverse exchange rate movements - particularly the decline in the US dollar. Deposit interest more than doubled to £2.6 million due to rising interest rates and, for part of the period, a defensive allocation to cash. The rise in the contribution from mineral rights, reflecting higher oil prices, was partially offset by a decline in the sterling value of this US dollar income.

The Company's expenditure increased with necessary investment in infrastructure, and operating expenses rose by £1.1 million. We have invested in our research capability and allowed for the costs of bonus payments. The increase also included non-recurring costs, including preparatory work on establishing our Hong Kong office and seeking advice on modernising the constitution of the Company and its capital structure.

The Company's tax charge rose by £1.3 million, reflecting the increased contribution from overseas dividends and deposit interest which, unlike UK dividends, are subject to corporation tax.

In accordance with the Statement of Recommend Practice "Financial Statements of Investment Trust Companies" we have treated certain non-recurring dividends and the associated taxation charge as capital in the Statement of Total Return.

Dividend

Continuing our progressive dividend policy we are proposing a final dividend of 36.25 pence, making a total dividend for the year of 71.75 pence, an increase of 1.25 pence on the previous period.

The directors appreciate that the dividend comprises an important element of the total return to stockholders. We invest the Company's capital to generate the long term returns needed to maintain our progressive dividend policy. Last year we undertook a review of investment strategy and determined to realign the portfolio, reducing exposure to fixed income instruments, which generate high relative income but offer little prospect of income growth, and reallocating capital to assets more likely to generate sustainable long term growth of both income and capital.

We are building a sound base to generate continuing income growth. This will enhance our flexibility to increase future dividend payments. However, in the short term, the portfolio realignment is dampening core recurring earnings from which current dividends are paid.

Consumer Price Index, Retail Price Index and Dividend (1995=100)

Source: Internal

Capital

The capital return of the Company reflected strong market rises particularly in the second half of the year.

The Company's closing net asset value of £32.16 per ordinary stock unit showed a net increase of 10.1% on the previous year. The stock price rose only by 5.2% as a result of a widening of the discount from 10.8% to 14.8% over the period.

Approximately half of the Company's net assets are currently invested in the UK. The 10.1% increase in the net asset value of the Company compares to rises of 11.6% in the FTSE All-Share Index and 4.8% in the sterling-adjusted FTSE World Index (excluding the UK) over the same period. Foreign exchange movements were significant in the year. Sterling's 3.6% appreciation against the US dollar all but negated the 4.2% rise in value of our US equity portfolio, and so the currency-adjusted return on our US held equities was a gain of only 0.6%. Sterling's decline against the euro boosted euro-denominated stock market returns from just over 8% to a currency-adjusted return of just under 10%.

Subsidiaries

The Company's financial services subsidiary, Alliance Trust Savings Limited (ATS), reported its highest ever income of £4.9 million, up 19.8% on the previous year. This comprised charges paid by customers and other income of £2.3 million and interest, net of that paid on customer deposits, of £2.6 million. ATS has continued to invest in its business to underpin this growth and its total costs rose to £4.3 million. Its profit before tax for the year was £0.6 million.

Alliance Trust (Finance) Limited (ATF) more than doubled its profit before tax to £0.9 million, reflecting increased interest earnings arising from the repayment in July 2004 of interest free loans that had been advanced by ATF to the Company and The Second Alliance Trust PLC.

This section describes our new approach to asset allocation and changes to the management of our equity assets.

Asset Allocation

Since the 1950s our investments have been predominantly in equities, which have provided superior returns. In the 1980s and 1990s, returns from equities were well above their long-term average. However, during the first years of this decade, some other asset classes generated better returns.

We still expect our investments to be mainly in equities, as we believe in their long term attractions. However, there are many risks that make equities vulnerable to lower average returns. We are, therefore, broadening our expertise to cover other assets, including fixed income and property, to ensure that we deliver value at all times.

Fixed income stocks can offer some defence against equity fluctuations as well as a generally higher income return in the short run. When returns in general are low, overall returns on fixed income securities, including gains on currencies, can be attractive, although the scope for capital growth is cyclical.

Direct investment in property can offer a higher initial yield than equities and can also offer opportunities for capital growth and protection against inflation. It is also easier to enhance property returns by borrowing.

Asset, Liability and Income Committee

In order to control the process of efficiently allocating capital across the various asset classes to produce the best possible returns, we established the Asset Liability & Income Committee (ALICo) in May 2004.

The committee meets monthly to manage the capital of the Company within the investment and asset allocation strategies agreed with the board and the risk parameters adopted by the Company. It also considers the liability side of the balance sheet: for example, it judges the merits, timing and risks of gearing, or of hedging other exposures such as foreign currencies.

Alan Young, our Investment Director, chairs the committee. The other committee members include the Chief Executive, the Finance Director, the Heads of Equities, Property and the other asset classes and our Head of Economics.

ALICo considers many factors such as political trends, operating environments and investment themes in order to construct a range of scenarios and review their financial implications. From this, the committee agrees a central view of the most likely scenario over the short, medium and long term. It also examines the potential risks to the central view and forms a view on the 'best' and 'worst' cases to provide some fix on the probabilities of possible but less likely scenarios which would affect our investment strategy.

The heads of the asset classes report on the expected returns in their respective asset type given this central view and, against this framework, we weigh our options and make strategic decisions on allocation.

The board reviews investment strategy, including gearing, in depth at least quarterly and monitors performance and necessary changes to investment strategy at each of its scheduled meetings.

We report on the strategic decisions taken during the year in the sections of this report on Economic Outlook and Investment Strategy.

Equity Portfolio Management

We continued the reorganisation of our investment operations to focus on generating better returns for stockholders.

We are fortunate to have a very skilled and experienced investment team. This is made up of seven managers, including the Head of Equities, and ten analysts, two of whom have special responsibility for covering industries such as resources and financials globally. We plan to recruit a further two experienced analysts to cover healthcare and pharmaceuticals and technology on a global basis.

To get the best out of this team, we have made a number of changes this year to the way we manage the assets.

First, we have returned to managing the overall portfolio by geography, while we have retained and will enhance experience gained at the global sector level by appointing dedicated global analysts. The various segments, UK Large Cap, UK Small and Mid Cap, Europe, USA Large Cap, USA Small and Mid Cap, Japan, Asia Pacific and the Rest of the World, are divided across the seven investment managers. This structure allows more efficient monitoring for the purposes of tracking performance and managing risk.

Secondly, we have set a target minimum level of investment in each holding of £3m and a range of 250-300 stocks for the portfolio as a whole. During the uncertainty of the last three years it was appropriate to maintain a higher number of stocks to spread our risk. Markets have since recovered and we believe that a more concentrated portfolio will not only be simpler to manage but will also position us better to benefit from the projected growth in equities, as each investment will have to meet more stringent selection criteria to merit inclusion in the portfolio.

Finally, we have implemented a performance-related reward structure designed to align the interests of our investment staff more closely with those of our stockholders.

We continue to invest in the processes and systems to support our investment staff in running the portfolio.

Otherwise, our approach to equity investment remains as before, employing a blend of both top down and bottom up disciplines.

Each month, we hold a series of internal equity strategy meetings. In the first of these, the Economics team provides detailed background data on the main themes affecting the 26 countries in which we currently invest. The investment managers then meet to formulate the asset allocation across the equity portfolio. Each of the managers is able actively to compete for capital in accordance with the projected returns and opportunities in each area. This is where the bottom up approach of looking at companies in great detail can have a profound impact on the final asset allocation decision. The managers are ably supported by the analysts, who brief them on each of the companies in their area and the immediate environment in which the Company operates.

Economic outlook

This section summarises economic developments over the last year and describes our expectations for the year ahead.

Background

Four key events have had a major impact on the global economy: the rise in the oil price, the tightening of policy in China, the ongoing depreciation of the US dollar and the withdrawal of extreme levels of policy stimulus in some of the world's major economies.

A combination of strong demand and fears over supply pushed the oil price to a record high in October, squeezing profit margins and forcing many companies to postpone both investment and hiring. Much of the increase in demand for oil stemmed from China, where the authorities became concerned that economic growth had reached an unsustainable level and restricted investment in the fastest growing sectors, namely cement, steel and real estate. This raised fears, as yet unfounded, of a hard landing in the Chinese economy, which would have negative implications for many other economies, particularly in Asia. In October Chinese authorities further confirmed their tightening bias by raising interest rates for the first time in 9 years.

Another key factor was the depreciation of the US dollar, which fell a further 4% in trade weighted terms during our financial year. This reflected concerns about the twin budget and trade deficits in the US and put pressure on exporters, from Europe in particular, threatening their competitiveness and forcing a considerable degree of cost cutting.

Finally, there was the decision by policy makers to withdraw policy stimulus in some of the world's major economies. Although UK interest rates have been rising since November 2003, the first upward move in the US did not materialise until June, since which time the Federal Reserve have increased rates steadily and gradually.

Oil price (West Texas Intermediate) $ per barrel
1 January 2004 to 28 February 2005

Source: Thomson Financial Datastream

US

Looking forward, we expect US interest rates to move higher, particularly if inflationary pressure builds. So far, increases in inflation have been closely related to the rise in the oil price, but there are now some signs that this may broaden out as companies win back pricing power. Although this could boost business confidence and margins, policy makers will wish to prevent inflationary trends from intensifying.

Consumer spending remains resilient, now underpinned by strength in the housing market which has compensated for the lack of any new stimulus from monetary or fiscal policy. This has contributed to the further deterioration in the current account deficit, which reflects the fact that import growth consistently exceeds that of exports. Although the US is attracting sufficient capital flows to finance this deficit, there are growing fears that an imbalance of this scale cannot be sustained, particularly when combined with a significant government budget deficit. Theory suggests that the necessary correction can occur by slowing growth within the US, or by allowing the dollar to fall, in an effort to boost demand from both Asia and Europe. The long term downward trend in the US dollar is expected to persist until the deficit problem is addressed.

Asia

US demand is a key determinant of growth in Asia, where economic activity is largely driven by exports. China's fixed exchange rate to the depreciating US dollar has boosted its international competitiveness, allowing it to increase global market share. This has boosted production, employment and income, encouraging strong growth in consumer spending. The easing of restrictions on travel has also encouraged large numbers of high spending Chinese tourists who have helped to boost activity around the whole region, but particularly in Hong Kong.

China's investment restrictions are expected to remain in place for some time, and interest rates may rise further, but the risk of a hard landing in the economy appears to be low. There is speculation that China will move to a fully flexible exchange rate, but this move is unlikely without some structural changes in China's financial system. The move towards a flexible exchange rate is likely to be gradual, perhaps commencing with the introduction of acceptable bands around the existing fixed rate.

Economic activity in the rest of Asia is largely influenced by demand from the US and China. Export activity drives economic growth, boosting employment, incomes and consumer spending towards levels which create sustainability in domestic demand. Stronger levels of domestic activity will be required in Japan before deflation there can be beaten. If the US dollar continues to fall, however, upward pressure could build against the currencies of those countries who hold excess savings but currency appreciation in Asia could impede their export growth.

US Dollar, Sterling, Yen and Euro - Trade Weighted
1 January 2004 to 28 February 2005

Source: Thomson Financial Datastream

Europe and UK

In recent months, European companies have coped with the rising oil price and appreciating euro. This has threatened competitiveness and margins, and has forced a significant level of cost cutting, with negative consequences for both employment and domestic demand. The prospect for expansionary fiscal policy is limited by high budget deficits, at least until flexibility is increased within the Stability and Growth Pact. Stimulus from monetary policy is also unlikely while asset prices show signs of accelerating growth and inflation remains above the European Central Bank's target level. However, a fall in the oil price, combined with further easing in the appreciation of the euro, could boost business confidence and eventually encourage sufficient growth, in both investment and employment, to allow domestic demand to recover. Sterling was underpinned by the prospect of rising interest rates, making it increasingly difficult for UK exporters to compete in world markets. However, recent signs of some cooling in both the manufacturing and consumer sectors now suggest that interest rates may be close to their peak. One key factor for the performance of the UK economy in the year ahead will be the housing market, the extent to which this slows and the impact which this has on consumer spending. Prospects for a mild downturn in the residential property market rely on continued strength in the labour market.

Key Factors

Although our outlook for the global economy remains relatively favourable, there are some significant factors which could result in lower levels of growth. These include another sharp rise in the oil price, a hard landing in China's economy, a significant slowdown in the UK housing market and a sharp depreciation in the US dollar. We constantly monitor thousands of economic statistics from all the major economies, and we will be paying particular attention to these variables in the months ahead.

Investment Strategy

This section describes how our investment outlook and asset allocation developed during the year under review and our current stance looking forward.

We began the year holding almost no cash, reflecting our most optimistic stance towards equities for some time. Nevertheless, we retained a degree of caution in holding a modest amount of fixed income stocks both directly and through our subsidiaries. Following a year of steep recovery in profits and markets, we expected equities to stabilise and consolidate gains. We anticipated firm global economic growth but considered that equity prices had already moved higher in line with this outlook. The style of stocks we held reflected this view and also our preference for good quality companies with characteristics such as free cash flow and steady growth.

We believed then, and still do, that economic policy makers are committed to keeping growth going, although sustaining a decent growth rate without some inflation will be a constant challenge and the rate of expansion may fluctuate. There is still a wide range of potential threats to a benign environment, manageable one by one, but cumulatively they could restrict growth more severely.

In the middle part of the year several factors did come together which temporarily undermined confidence. China's relentlessly growing demand for resources, along with a lack of new supply because of years of global under-investment in oil and mineral production, were already pushing oil prices higher. With supply already strained, the deterioration of the Middle East situation in the summer triggered a jump in oil prices. The risk that authorities might apply economic policies that hamper growth also increased. China's announcement that it intended to restrict growth came at the same time as indications that the pace of US economic expansion was slowing. These were two signs that cohesive management of the world economy was under pressure. This prompted us to protect some of our capital, moving 5% from equities into cash.

Global Indices in Sterling Terms
30 January 2004 to 31 January 2005

Source: Thomson Financial Datastream

Fortunately an easing in the price of oil, just soon enough to stop a cascade of pressures on companies' profit margins, and a pick up in US growth and employment renewed our optimism for equities. The watershed came in the clear outcome of the US Presidential election and the return of a business-friendly administration. We moved most of the cash back into equities. In volatile markets these decisions proved sound. The tightness in supply and demand in oil and other commodities, mentioned earlier, is looking increasingly structural in nature. Following initial sales in these sectors early in the year over concerns about the strength of economic growth, we reinvested in the resource stocks establishing a position greater than that represented in the markets.

In the end the year proved to be the best one in the last 25 for world economic growth. What was more of a surprise was that profits, as a percentage of GDP, were around record levels. Companies' own caution about this past year generally drove them into further cost cutting and using labour more efficiently. In Japan and parts of Europe, notably Germany, such long awaited corporate re-structuring has held back growth in personal incomes short term, but could transform economic prospects more profoundly in the future. It is never easy to estimate the extent, far less the timing, of the pay-off for such moves. We have committed more money to Japan and Europe but for now the Japanese investment demands great patience.

It is likely that most major countries' official economic policies will remain supportive. That leads us to remain positive about growth orientated assets and careful stock selection where individual value is attractive. This has proved particularly so in Small and Mid Cap UK companies, which have performed better than their larger brethren. Our own portfolio benefited from a number of take-overs and offers, testimony to the value that can be found.

During the year we began developing strategies for investing directly in commercial property. We have reviewed a variety of possible properties but made no purchases as yet. We have, however, earmarked up to 3% of net assets for allocation to direct UK commercial property at present should suitable opportunities arise.

Our fixed income stocks offered defensive net yields approaching 7%, a return comparable with the ultra long-term return from equities. Fixed income stocks performed well, highly unusual in a year of rising official short-term interest rates and concern about inflation. The foreign central banks' attempts to divert the effects of their own currencies' appreciation helped government bonds. Credit spreads on company debt priced in relation to them have narrowed to probably unsustainable levels as investors hunted for high initial yields. Our basic preference for assets which can grow their returns continues to reduce our likelihood of expanding investment in this fixed income asset class.

We did not hold our liquidity in US dollars for much of the year, wary of underlying weakness induced by the budget and trade deficits. Sterling was preferred until it weakened in turn, as the UK interest rate cycle neared its peak. The UK's deficits are on a worsening trend also, albeit less extreme than the US. That makes hedging the US dollar more difficult for us to call but we continue to keep it under close review.

The board established procedures to enable borrowing to be implemented at short notice if required and bank facilities are available. We carried net cash during the year, however, mindful of the risks in the investment background. The capability to employ tactical gearing is helpful in itself but also to aid holding a fully invested position and accommodate the short term effects of buying and selling within individual parts of the portfolio. It is also possible that borrowing could be used to help finance certain parts of the non-equity portfolio.

The Twenty Largest Investments

as at 31 January 2005	**£m**
BP	52.2
Shell Transport & Trading	51.6
GlaxoSmithKline	43.7
Royal Bank of Scotland	43.5
Vodafone	34.0
HBOS	26.8
Barclays	25.6
HSBC	23.0
Rio Tinto	21.6
Aviva	19.6
Alliance Trust (Finance)	18.6
BHP Billiton*	16.9
Lloyds TSB	15.5
Abbott Laboratories	14.9
Persimmon	14.8
Tesco	14.6
Exxon Mobil	13.8
Standard Chartered	13.7
National Grid Transco	13.6
Diageo	12.5

* UK and Australian holdings aggregated.

Portfolio Review

UK Large Cap

UK Small and Mid Cap

Europe

US Large Cap

US Small and Mid Cap

Japan

Asia Pacific

Property

Private Equity

Fixed Income

Investment Changes

Classification of Investments

This section of our report gives a review of the portfolio which, at the year end, contained investments in 26 countries.

The hoop diagrams below give snapshots of the distribution of assets, first by geography and then by broad sector.

On pages 22 to 25 we list all the investments held.

The table at the top of page 21 summarises the investment changes over the year. The classification table, also on page 21, gives a breakdown of the main industries in each sector and the percentage of the portfolio held in each geographical area.

Distribution by geography

	£m
UK	888.4
Europe	180.9
North America	301.8
Japan	81.9
Asia Pacific	159.6
Rest of the World	10.7
Total assets less current liabilities	**1,623.3**

Distribution by sector

	£m
Resources and Basic Industries	360.1
Capital Goods	179.4
Consumer Goods and Products	224.9
Services	365.3
Financials	394.3
Investment Companies	42.1
Fixed Income	38.4
Other Net Assets	18.8
Total assets less current liabilities	**1,623.3**

Based on valuations at 31 January 2005.

UK Large Cap

We achieved a 14% total return over the year on our UK Large Cap investments, which compared favourably with the 10% return on the FTSE All World UK Large Cap Index.

Mining and oil companies benefited directly from China's high demand for commodities. Shell, however, lagged its peers for much of the year because of its disappointing operational performance. It announced a restructuring programme in October, which we believe should produce a more agile and focussed structure and so we retain our exposure to this company. Our mining holdings performed well and we added to Rio Tinto in August when its valuation looked attractive.

For much of the year retail banks and, to a lesser extent, housebuilders underperformed because investors were concerned that successive interest rate rises would cut profitability. December trading updates confirmed that these concerns were overdone and our holdings in RBS, HBOS and Persimmon all performed strongly.

Insurers are experiencing greater demand and have improved their financial position. They have raised capital to meet regulatory requirements and the improvement in stockmarkets has also helped. We retained our positions in Legal and General, Aviva and Prudential as valuations look attractive despite the fact that share prices have been firm.

Pharmaceutical stocks have had a difficult period. However, we recently added to the large holding in GlaxoSmithKline as its new drug pipeline should soon start to generate better returns.

The utility companies have been subject to a regulatory review process that we believe will result in a challenging but potentially rewarding five-year period ahead. Our key holdings of Scottish & Southern Energy and Kelda performed very well. We increased Scottish & Southern Energy as a switch from Scottish Power but reduced Kelda recently as its yield attraction decreased. We also built up our holding in National Grid Transco, which offers good dividend growth potential.

Our large position in EMAP produced a poor return. We anticipated the impact of the competitive difficulties that the company faced and so reduced our holding ahead of the company's own announcement on this. We still retain stock in this company as other areas of the business are performing well and we were encouraged by the outcome of meetings with the EMAP senior management.

We sold or reduced J Sainsbury, Scottish and Newcastle, Unilever, Whitbread, Compass Group, Marks and Spencer and Electrocomponents since we expect lacklustre returns from these over the medium term. We also sold Yell believing that the share price had peaked following its strong performance.

UK Small and Mid Cap

The FTSE All World UK Small Cap Index again outperformed larger listed companies, rising by 18.9% over the year. Good profits growth again led this strong performance on what were still reasonable valuations. The sector was not as materially affected by the weakening US dollar as the larger companies. Corporate activity was a notable feature in this area and, among our holdings, Kidde, the fire safety company, Aggregate Industries, the building materials company, Celltech, the pharmaceutical company, and the retailer, New Look, were all the target of bids. Our stake in Forth Ports rose strongly due to bid activity elsewhere in the ports sector.

During the year we realigned the portfolio and took profit in a number of companies including those subject to bids. This activity resulted in net sales of £7.7m. Three holdings dominated the sales: Celltech, New Look and John Wood Group. We realised £6.4m from Celltech at a substantial profit when we accepted a cash offer for the company. New Look was taken private, netting us £3m. We sold £4m of our holding in John Wood Group, the Aberdeen based oil company, after a series of profit warnings. We still retain a substantial holding in John Wood Group and it is encouraging to note that the company is beginning to recover.

We purchased new holdings in Capital Radio, Dignity and Halfords. Capital Radio is benefiting from reduced spending on digital infrastructure. Dignity is a funeral services business, which we think is strongly placed to benefit in a consolidating market place. Halfords' new store formats are underpinning growth. All of these holdings, in total £9m at cost, are performing well since we bought stock.

Looking forward we believe that the Small and Mid Cap segments of the market will offer very exciting stock specific opportunities. This confidence stems from current undemanding valuation levels, expectations of further dividend increases and the underlying confidence among the smaller companies themselves, as shown in their order books and recent outlook statements.

Portfolio Review

Europe

European equities performed well on the back of an upturn in the US and Asian economies, combined with corporate restructuring.

However, rising raw material costs dampened corporate results and the strength of the euro affected key export sectors. We maintained our interest in SKF and Sandvik since the pick up in their export markets outweighed the effect of higher costs. These achieved strong growth and performed very well. We purchased a new holding in the Swedish industrial tool and mining engineer, Atlas Copco, which has also outperformed since we bought it.

Companies' robust cash flows supported an increase in dividends and share buybacks and this was particularly prevalent among the telecommunications companies. We were underweight in this sector, although our holding in Telefonica has performed well.

There were a number of corporate deals made in the pharmaceuticals sector, which directly affected our holdings. These included the acquisition of Celltech by UCB and Sanofi's take-over of Aventis. We cut back our sector exposure overall but made good returns from our interests in Roche and Novartis of Switzerland.

High unemployment is still undermining domestic consumer confidence but in spite of this we added to our only European retailer, Metro of Germany, because of its international expansion plans in Eastern and Southern Europe, and the potential we see for a turnaround of its domestic business. Metro outperformed its market comfortably in the last year.

We bought French luxury goods company LVMH for its attractive exposures to both the increasingly prosperous Asian consumer and to the continued improvement in international travel. However, LVMH has disappointed as its sales have been lighter than had been hoped for. During the year there was a rebound in advertising spend and we maintained our interest in the media sector, attracted by the cyclical opportunities and the prospect of advertising market deregulation in Southern Europe.

We expanded our position in banks since this remains an attractive area of growth. We increased our holding in UBS, which has a solid wealth management strategy and switched out of Société Générale into BNP Paribas, which is less geared to market volatility. In Spain we sold BSCH and bought into BBVA on concerns that the former had riskier international expansion plans. This proved to be the case when BSCH later acquired Abbey in the UK.

As the trends outlined above continue into the coming year, profits should continue to grow, although at a slower rate than we have previously seen.

US Large Cap

We were net sellers early in the year, worried about the impact of rising energy and commodity prices on economic growth, profit margins, and consumer confidence. Indeed, the market was weak until summer, falling by 6%, and was not helped by the falling dollar and bond market.

We sold companies with a high exposure to the consumer, such as Kraft Foods and Colgate-Palmolive, both of which were beginning to exhaust the benefits from restructuring. We also reduced our long-held investments in PepsiCo and Walmart. We reinvested part of the proceeds in CVS, a drugstore chain, which is less sensitive to discretionary spending and which should benefit from the purchase and turnaround of its former competitor Eckhard.

In the energy sector, we bought new holdings in Suncor and Shell Canada, both of whom have large interests in the Athabasca Tar Sands, estimated to contain up to one-third of global oil resources. Our biggest holding in the sector, Exxon Mobil, also performed well over the year rising by 26% and is now the world's largest company. We started a new investment in Caterpillar, which we expect to be a beneficiary of increased investment in mining.

Pharmaceuticals was the worst performing industry sector. We had already sold the bulk of our Merck holding when they announced the unexpected withdrawal of their main anti-inflammatory drug, Vioxx, due to increased risks of heart attack. We also continued to reduce our investment in Johnson & Johnson that, although performing well currently, is facing increased competition against its key drugs. Abbott Laboratories, our biggest US investment, continues to grow drug sales faster than the market and comfortably outperformed the sector rising 12%.

We sold our holdings in AT&T Wireless and SBC Communications on their merger and bought Sprint for greater wireless exposure. The banking sector is also consolidating and we benefited from acquisition premiums when Bank of America bought Fleet Financial and JP Morgan purchased Bank One. Elsewhere, Marsh and McLennan, our long established insurance holding, was indicted for malpractice. The shares fell heavily, but have recovered part of the fall as they address the offending practices. We continue to monitor this situation closely.

One of the most encouraging features of the year was the strength of cash generation by companies and a willingness to distribute part to shareholders through increased dividends, exemplified by Microsoft who paid a $3 per share special dividend. Improved corporate confidence should translate into increased capital spending, taking some of the burden for driving the economy away from the consumer. Profits should rise further, although not at the pace of last year, and valuations are not excessive.

US Small and Mid Cap

The Russell 2000 index of smaller companies rose by 7.5%, outpacing the S&P 500's 4.4% return. Small Caps have now beaten their larger peers in every year since 1999 as investors have sought less mature businesses with higher growth prospects. Anticipating that this trend would continue, we invested a net £2m into our Small & Mid portfolio during the year.

The most successful holding was Pentair, whose shares nearly doubled. The management has transformed the company by selling its struggling power tools division and making a major acquisition in water technologies. Republic Services also performed well and we added to the holding. This environmental services firm has a number of good franchises and exposure to the expanding "sun-belt" states.

With cash-rich larger companies regaining an appetite for acquisitions, some other sectors, such as energy, could see significant corporate activity in 2005. Here, we expect that increased investment in oil exploration and production should drive our new holding in oil services provider Weatherford International.

The mixed performance of our retail holdings reflected consumer caution. PETsMART, the speciality pet products company, is a new holding that has already risen over 10%. It benefits from the increased willingness of owners to spend on their pets. In contrast, competition in the home furnishings industry intensified and we sold Pier 1 Imports.

As long-term investors, we need to be particularly aware of demographic and migratory trends. As the US population ages and migrates south, some businesses are adapting to these trends faster than others. Such concerns led us to exit, at a loss, the restaurant chain Bob Evans Farms, which is most exposed to the slower-growing Midwest and has an ageing core customer base.

Utilities performed well, helped by interest rates staying relatively low. We sold our holding in WPS Resources, believing that this trend would not continue, but have retained lower yielding Constellation Energy, which performed very well during in the year as the merchant energy division thrived under new management.

In the financial sector, we took profits in regional bank Comerica, concerned about deteriorating credit quality and that its valuation had become stretched on take-over speculation. We bought regional bank Marshall and Ilsley, which is dominant in Wisconsin and has a fast-growing data processing subsidiary.

Internet security specialist Check Point Software and business analytics firm Hyperion performed well. We maintained exposure to contract manufacturers Jabil Circuits and Flextronics despite a sharp share price fall during the year, since they are well placed to benefit from the longer-term trend of manufacturers outsourcing production.

Japan

In Japan, strong profit growth helped to reduce valuations to international norms, a position not seen for many years. Companies are focussing more on improving corporate governance and higher profitability and there has been an acceleration in the number of share buy backs and increasing commitments to raising dividend payout ratios. Corporate activity is also increasing and although it remains dominated by mergers and acquisitions, there are more incidences of hostile take-overs.

We invested a net £15m during the year, concentrating primarily on domestic sectors in anticipation of a spreading out of recovery. In the banking sector we added to our holding in Mitsubishi Tokyo and built positions in another major city bank, Mizuho. We also purchased an interest in the leading regional operator, Chiba. Both performed well after our purchase, particularly Mizuho.

The telecommunications sector performed poorly. We switched the fixed line NTT holding into the mobile operator NTT Docomo as we were encouraged by better free cash flow yields. This, however, proved to be a poor decision as the company struggled to cope with intense competition and was a significant underperformer.

Another area of underperformance came in building materials. We used the proceeds from our Matsushita Electric Works holding following a tender from its parent company, to purchase JS Group, the sanitaryware and window sash company, but it saw intense competition from imports and suffered as a result, and we moved quickly to cut the holding.

We continued to seek out niche companies and we built positions in Sato, the leading bar coding company, and Sundrug, a drugstore chain which performed very well thereafter. Although we added to our Toyota holding we cut back on exporters, particularly in the electrical and electronics areas. These comprised sales of Matsushita, the parts company Rohm and a reduction in Canon. We also sold the air conditioning manufacturer Daikin.

The relative performance from the Japanese portfolio was disappointing but we have realigned our positions to be better placed for the next step in Japan's recovery. We expect an improvement in the domestic economy to follow on from a broadening of rising capital expenditures to the non-manufacturing sectors which in turn should lead to a pick up in consumer confidence.

Portfolio Review

Asia Pacific

The region witnessed strong economic growth during 2004, primarily driven by American and Chinese demand. The rapid rate of growth in China raised concerns about overheating, and resulted in the Government introducing austerity measures and raising interest rates for the first time in nine years. We became increasingly concerned about valuation levels in certain of our holdings exposed directly to excessive demand and we made profitable sales of Jiangxi Copper, Anhui Conch Cement and Denway Motors. These sales proved timely as these companies underperformed for the remainder of the year.

China's surging growth helped push world prices for commodities sharply higher and although this was negative for the economy overall given the region's significant import requirements, there are a number of companies that benefit from a higher oil price environment. To capture this we increased our position in PTT, the dominant integrated oil and gas company in Thailand, and Keppel Corp of Singapore, a beneficiary of increased oil exploration. Both contributed positively to performance. Our largest exposure to the resources sector is the Australian company, BHP Billiton. Through it, we are able to benefit from increased Chinese demand. The company has a strong management team and a willingness to return capital to shareholders.

Export strength seen across the region contributed positively to the growth in domestic consumption. We invested a net £6m over the course of the year.

We sold Unilever Indonesia due to increasing levels of competition from multinational and domestic companies. This had been a very successful holding for us and following our sale it underperformed materially. The proceeds were profitably re-deployed into Café de Coral in Hong Kong, a restaurant chain operator and a direct beneficiary of the improving Hong Kong economy. Elsewhere, we increased our position in Hongkong Land, which is benefiting from improving rental yields in the commercial property market in Hong Kong. Both of these additions contributed positively to performance during the year.

In contrast, the position established in Sun Hung Kai Properties, a leading Hong Kong property developer, had a negative impact on performance despite an improvement in the underlying property market.

The risk that economic policies in the region might harm growth cannot be overestimated, particularly from China, but recent government actions provide encouragement. Valuations are mostly favourable and the increasing returns to shareholders both through capital returns and dividend growth make investment in the region attractive. Although rates of growth are likely to slow, from an export perspective, improvements in domestic consumption look set to continue through 2005, and we maintain a positive bias to the region.

Property

In a period of re-appraisal of relative values between asset classes, property's healthy income flows is one of its attractions, while there is still room for further capital growth. Looking ahead, the total return on property should move closer to its longer term performance trend of around 10% a year.

Yields have fallen as prices have risen. This will moderate market performance in 2006. The outlook for the foreseeable future is still positive: occupier markets are steady and rents are expected to grow modestly. Low interest rates and continuing capital inflows will underpin growth. Income is likely to form the largest component of performance next year.

Our focus will be on seeking out investment opportunities where we can add value by active management or where we believe that there will be longer-term rental and capital appreciation. We will pursue investment opportunities either directly or together with selected joint venture partners where appropriate.

Our longstanding oil and mineral rights in North America continue to yield good income. We intend to review these in the forthcoming year to see if there is a case for additional allocation of capital in order to drive greater returns.

Private Equity

During the year, we realised a significant profit from SVG Capital after selling the proceeds of a conversion of a convertible note. We made an initial investment into the technology specialist Herald Ventures Fund II where we have committed £2m to be drawn down over its life.

Our two other fund holdings, Albany Ventures and Dunedin Buyout, were active, returning a combined £0.7m to us as a result of profitable realisations while also drawing down £1.3m for new investment.

For further exposure to private equity we also hold two quoted investment trusts, Candover and Standard Life European, which both performed strongly over the year.

We continue to assess the sector for further investment opportunities but we are conscious that a lot of capital is currently being directed towards this area.

Fixed Income

Fixed income holdings remained largely unchanged and were mainly concentrated in UK financial preference stocks. Lower gilt yields and extremely tight corporate spreads increased their capital value by 10%, providing a total return in excess of 16%. This compares with a total return of 8% on the MSCI Euro Sterling Corporate Index and a total return of 7% on the MSCI UK Sovereign Debt Index.

Investment Changes £m

	Valuation 31 January 2004	Purchases	Sales	Appreciation	**Valuation 31 January 2005**
UK	768.3	95.6	(131.8)	113.5	**845.6**
Europe	146.1	45.2	(33.9)	13.7	**171.1**
North America*	303.9	70.6	(80.4)	4.9	**299.0**
Japan	64.5	45.2	(29.8)	0.9	**80.8**
Asia Pacific	144.9	45.3	(39.5)	8.2	**158.9**
Rest of the World	12.8	0.0	(4.6)	2.5	**10.7**
Fixed Income	34.9	0.0	0.0	3.5	**38.4**
	1,475.4	301.9	(320.0)	147.2	**1,604.5†**

† The difference between £1,604.5m and the £1,623.3m referred to on page 16 is represented by other *net assets of £18.8m, which are* not included in the Investment Changes table. £4.5m of these assets are held in sterling.

* *Includes oil and mineral rights.*

Classification of Investments

Investments %

		UK	Europe	North America	Japan	Asia Pacific	Rest of the World	**Total 2005**	Total 2004
Resources	Oil, Chemicals and Resources	10.1	1.0	2.3	0.1	1.2	0.0	**14.7**	12.9
and Basic	Construction and Building	2.4	0.3	0.0	0.2	0.2	0.0	**3.1**	3.0
Industries	Utilities	2.6	0.3	0.6	0.0	0.9	0.0	**4.4**	4.3
		15.1	1.6	2.9	0.3	2.3	0.0	**22.2**	20.2
Capital	Electronics and Engineering	1.2	0.9	0.5	1.2	0.0	0.0	**3.8**	5.4
Goods	General Industrials	0.2	0.0	0.9	0.5	1.0	0.0	**2.6**	2.2
	Technology	0.4	0.5	3.4	0.0	0.3	0.0	**4.6**	5.1
		1.8	1.4	4.8	1.7	1.3	0.0	**11.0**	12.7
Consumer Goods and	Beverages, Food, Household and Tobacco	2.9	0.7	0.7	0.3	0.9	0.0	**5.5**	6.3
Products	Health	0.4	0.5	1.6	0.0	0.0	0.0	**2.5**	3.3
	Pharmaceuticals	2.8	1.4	1.4	0.2	0.0	0.0	**5.8**	7.5
		6.1	2.6	3.7	0.5	0.9	0.0	**13.8**	17.1
Services	Brewers, Hotels and Leisure	1.6	0.3	0.3	0.0	0.3	0.0	**2.5**	2.2
	Media	2.4	0.8	0.3	0.1	0.3	0.1	**4.0**	4.7
	Retail	2.7	0.3	1.9	0.6	0.4	0.0	**5.9**	5.1
	Support Services	1.7	0.0	1.2	0.2	0.7	0.0	**3.8**	4.0
	Telecommunications Services	2.7	0.4	0.7	0.2	0.5	0.3	**4.8**	4.7
	Transport	1.0	0.0	0.0	0.2	0.2	0.0	**1.4**	1.2
		12.1	1.8	4.4	1.3	2.4	0.4	**22.4**	21.9
Financials	Banks	9.4	2.3	1.5	0.7	1.7	0.0	**15.6**	14.0
	Insurance	2.5	0.9	0.9	0.1	0.0	0.0	**4.4**	4.4
	Real Estate	0.9	0.0	0.2	0.2	0.7	0.0	**2.0**	2.1
	Speciality and Other Financial	1.9	0.0	0.0	0.1	0.4	0.0	**2.4**	2.4
		14.7	3.2	2.6	1.1	2.8	0.0	**24.4**	22.9
Investment Companies		2.2	0.0	0.0	0.0	0.1	0.3	**2.6**	2.7
Total Equities*		52.0	10.6	18.4	4.9	9.8	0.7	**96.4**	97.5
Fixed Interest		2.4	0.0	0.0	0.0	0.0	0.0	**2.4**	2.4
Total Investments		54.4	10.6	18.4	4.9	9.8	0.7	**98.8**	99.9
Other Net Assets		0.3	0.6	0.2	0.1	0.0	0.0	**1.2**	0.1
Total Assets less *Current Liabilities*	***2005 £1,623m***	*54.7*	*11.2*	*18.6*	*5.0*	*9.8*	*0.7*	***100.0***	
	2004 £1,476m	54.1	10.0	20.8	4.4	10.0	0.7		100.0

* Convertibles represent 0.8% (2.0%)

The geographic classification of the investments is by the domicile of their primary listing, save for investment companies with a specific regional focus. However, the companies in which we invest are exposed to currencies and economies throughout the world.

Portfolio Listing

UK

UK	Sector	£000
BP	Oil & Gas	52,234
Shell Transport & Trading	Oil & Gas	51,576
GlaxoSmithKline	Pharmaceuticals	43,709
Royal Bank of Scotland	Banks	43,542
Vodafone	Telecommunication Services	33,997
HBOS	Banks	26,770
Barclays	Banks	25,558
HSBC	Banks	22,987
Rio Tinto	Mining	21,594
Aviva	Insurance (Non-life and Life)	19,576
Alliance Trust (Finance)	Speciality & Other Finance	18,605
Lloyds TSB	Banks	15,468
Persimmon	Construction & Building Materials	14,765
Tesco	Food & Drug Retailers	14,565
Standard Chartered	Banks	13,713
National Grid Transco	Utilities	13,585
BHP Billiton	Mining	12,895
Diageo	Beverages	12,527
Scottish & Southern Energy	Electricity	12,208
Alliance Trust Savings	Speciality & Other Finance	10,887
Legal & General	Insurance (Non-life and Life)	10,875
Prudential	Insurance (Non-life and Life)	10,711
BAA	Transport	10,675
Reckitt Benckiser	Personal Care & Household Products	10,374
GUS	General Retailers	9,761
Hilton Group	Leisure, Entertainment & Hotels	9,617
EMAP	Media & Photography	9,277
BT Group	Telecommunication Services	9,124
Wolseley	Construction & Building Materials	8,665
Pearson	Media & Photography	8,531
Unilever	Food Producers & Processors	8,303
British American Tobacco	Tobacco	8,226
Renishaw	Electronic & Electrical Equipment	8,004
Allied Domecq	Beverages	7,908
ITV	Media & Photography	7,684
Slough Estates	Real Estate	7,541
Land Securities	Real Estate	7,436
Aggregate Industries	Construction & Building Materials	7,054
Wolverhampton & Dudley	Leisure, Entertainment & Hotels	7,024
Candover Investments	Investment Companies	6,957
Aberforth Smaller Companies	Investment Companies	6,853
Greene King	Leisure, Entertainment & Hotels	6,778
Kingfisher	General Retailers	6,722
United Business Media	Media & Photography	6,435
Standard Life European Private Equity	Investment Companies	6,390
Spirax-Sarco	Engineering & Machinery	6,254
SVG Capital	Investment Companies	6,071
United Utilities	Utilities	6,063
John Wood Group	Oil & Gas	6,024
Kelda Group	Utilities	5,987
BG Group	Oil & Gas	5,811
Sage	Software & Computer Services	5,801
Gyrus Group	Health	5,675
Next	General Retailers	5,620

Hays	Support Services	5,613
Kidde	Engineering & Machinery	5,221
Premier Farnell (convertible preference shares)	Support Services	4,892
Crest Nicholson	Construction & Building Materials	4,597
Bradford & Bingley	Banks	4,470
BOC Group	Chemicals	4,456
Scottish Power	Electricity	4,299
Capital Radio	Media & Photography	4,276
Serco	Support Services	4,235
British Vita	Chemicals	4,014
UK Balanced Property Trust	Real Estate	3,931
Marks & Spencer	General Retailers	3,682
Marshalls	Construction & Building Materials	3,668
Dignity	Support Services	3,446
Croda International	Chemicals	3,432
Halfords	General Retailers	3,423
Johnson Matthey	Chemicals	3,364
Compass	Support Services	3,321
Michael Page	Support Services	3,156
Electrocomponents	Support Services	2,914
Forth Ports	Transport	2,913
Merrill Lynch World Mining Trust	Mining	2,868
Associated British Ports	Transport	2,722
InterContinental Hotels	Leisure, Entertainment & Hotels	2,652
Reed Elsevier	Media & Photography	2,478
Cobham	Aerospace & Defence	2,273
Dunedin Buyout Fund	Investment Companies	1,671
BAE Systems	Aerospace & Defence	1,219
Bioscience Investment Trust	Pharmaceuticals	1,194
MFI	General Retailers	1,006
Albany Ventures Fund	Investment Companies	919
Spirent	Info.Tech. Hardware	847
Protherics	Pharmaceuticals	596
Wm Morrison Supermarkets	Food & Drug Retailers	378
Euroclear	Speciality & Other Finance	294
Herald Ventures II Limited	Investment Companies	150

Total 845,582

Europe

Europe	Sector	£000
BNP Paribas	Banks	8,859
Total	Oil & Gas	8,588
CNP Assurances	Insurance (Non-life and Life)	7,723
Novartis	Pharmaceuticals	7,668
UBS	Banks	7,115
Telefónica	Telecommunication Services	6,945
ABN Amro	Banks	5,951
Lafarge	Construction & Building Materials	5,812
UCB	Pharmaceuticals	5,654
UniCredito Italiano	Banks	5,567
BBVA	Banks	5,446
SKF	Engineering & Machinery	5,428
Arnoldo Mondadori Editore	Media & Photography	5,223
Air Liquide	Chemicals	4,904
Metro AG	General Retailers	4,804
Télévision Française	Media & Photography	4,779
Atlas Copco	Engineering & Machinery	4,707
Fresenius	Health	4,345
Sandvik	Engineering & Machinery	4,326
Enel	Electricity	4,177
AXA	Insurance (Non-life and Life)	4,168
Nestlé	Food Producers & Processors	4,167
Nordea Bank	Banks	3,783
VNU	Media & Photography	3,634
Sanofi-Aventis	Pharmaceuticals	3,549
SAP AG	Software & Computer Services	3,169
LVMH	Household Goods & Textiles	3,125
Accor	Leisure, Entertainment & Hotels	2,943
Rhön-Klinikum	Health	2,810
Roche	Pharmaceuticals	2,745
Sampo	Insurance (Non-life and Life)	2,528
Altana AG	Pharmaceuticals	2,521
Thomson	Info.Tech. Hardware	2,423
ASML Holding	Info.Tech. Hardware	2,211
Altadis	Tobacco	2,206
Linde	Chemicals	2,070
Puma	Household Goods & Textiles	1,836
NH Hoteles	Leisure, Entertainment & Hotels	1,538
Fresenius Medical Care	Health	1,161
austriamicrosystems	Info.Tech. Hardware	504

Total 171,112

North America

North America	Sector	£000
Abbott Laboratories	Pharmaceuticals	14,906
Exxon Mobil	Oil & Gas	13,751
Microsoft	Software & Computer Services	10,652
Johnson & Johnson	Health	9,831
General Electric	Diversified Industrials	9,715
Wal-Mart	General Retailers	9,260
Home Depot	General Retailers	8,029
Marsh & McLennan	Insurance (Non-life and Life)	7,306
Bank of America	Banks	6,844
Motorola	Info.Tech. Hardware	6,645
Bristol-Myers Squibb	Pharmaceuticals	6,265
Altria Group	Tobacco	6,240
First Data	Software & Computer Services	5,915
PepsiCo	Beverages	5,408
Pentair	Diversified Industrials	5,148
Cisco Systems	Info.Tech. Hardware	4,994
Wells Fargo	Banks	4,877
Intel	Info.Tech. Hardware	4,876
Republic Services	Support Services	4,873
Verizon Communications	Telecommunication Services	4,822
Northern Trust	Banks	4,791
Gannett	Media & Photography	4,712
CVS	Food & Drug Retailers	4,711
Constellation Energy	Electricity	4,614
Sysco	Support Services	4,451

Portfolio Listing

American International Group	Insurance (Non-life and Life)	4,410
Sprint	Telecommunication Services	4,057
Check Point Software	Software & Computer Services	3,940
Harsco	Engineering & Machinery	3,706
UnitedHealth Group	Health	3,536
Schlumberger	Oil & Gas	3,513
TCF Financial	Banks	3,466
Cintas	Support Services	3,460
HCA	Health	3,400
Oracle	Software & Computer Services	3,396
Burlington Resources	Oil & Gas	3,269
International Game Technology	Leisure, Entertainment & Hotels	3,185
PETsMART	General Retailers	3,168
Alcon	Health	3,150
Baxter International	Health	3,133
Insight Enterprises	Support Services	3,109
Zebra Technologies	Info.Tech. Hardware	3,079
Marshall & Ilsley	Banks	3,065
Walgreen	Food & Drug Retailers	3,051
Pactiv	Support Services	3,039
Weatherford International	Oil & Gas	3,022
Protective Life	Insurance (Non-life and Life)	2,980
Flextronics	Info.Tech. Hardware	2,972
Shell Canada (Class A)	Oil & Gas	2,890
Citizens Communications	Telecommunication Services	2,862
BJ's Wholesale Club	General Retailers	2,851
Jabil Circuit	Info.Tech. Hardware	2,841
Suncor Energy	Oil & Gas	2,803
Cousins Properties	*Real Estate*	*2,693*
Hawaiian Electric	Electricity	2,655
RPM International	*Chemicals*	*2,581*
JPMorgan Chase	Banks	2,415
Consolidated Edison	*Electricity*	*2,347*
Texas Instruments	Info.Tech. Hardware	2,308
Emerson Electric	Electronic & Electrical Equipment	2,140
Zimmer Holdings	Health	2,108
Shuffle Master	Leisure, Entertainment & Hotels	1,998
Caterpillar	Engineering & Machinery	1,928
Pfizer	Pharmaceuticals	1,922
EnCana	Oil & Gas	1,902
Dell	Info.Tech. Hardware	1,512
Hyperion Solutions	Software & Computer Services	1,433
Hospira	Health	957
	Total	**295,888**

Japan	**Sector**	**£000**
Canon	Electronic & Electrical Equipment	5,859
Mitsubishi Tokyo Financial Group	Banks	5,250
Hoya	Engineering & Machinery	4,750
Keyence	Electronic & Electrical Equipment	3,878
Takeda Pharmaceutical	Pharmaceuticals	3,777
Toyota Motor	Automobiles	3,650
Secom	Support Services	3,373
Mizuho Financial Group	Banks	3,371
East Japan Railway	Transport	3,261
FCC	Automobiles	3,149
Lawson	Food & Drug Retailers	3,024
NTT DoCoMo	Telecommunication Services	2,971
Kao	Personal Care & Household Products	2,812
Sato	Engineering & Machinery	2,791
Shin-Etsu Chemical	Chemicals	2,732
Sundrug	Food & Drug Retailers	2,522
Mitsui Fudosan	Real Estate	2,472
The Chiba Bank	Banks	2,317
Credit Saison	Speciality & Other Finance	2,162
Ajinomoto	Food Producers & Processors	2,118
Shimamura	*General Retailers*	*1,952*
Honda Motor	Automobiles	1,889
Ito Yokado	*General Retailers*	*1,879*
Fuji Television Network	Media & Photography	1,815
Toto	Construction & Building Materials	1,690
Fuji Fire and Marine Insurance	Insurance (Non-life and Life)	1,506
Ushio	Electronic & Electrical Equipment	1,163
Eneserve	Engineering & Machinery	1,130
Komatsu	Construction & Building Materials	885
JPMorgan Fleming Japan	Investment Companies	657
	Total	**80,805**

Asia Pacific	**Sector**	**£000**
Brambles Industries	Support Services	6,304
China Merchants Holdings	Support Services	5,166
BHP Billiton	*Mining*	*4,011*
Swire Pacific	Diversified Industrials	3,904
Hong Kong & China Gas	Utilities	3,800
Datang International Power	Electricity	3,792
Sun Hung Kai Properties	Real Estate	3,791
Keppel Corp	Diversified Industrials	3,757
Commonwealth Bank of Australia	Banks	3,636
Hongkong Land Holdings	Real Estate	3,619
Foster's Group	Beverages	3,596
Hong Kong Exchanges & Clearing	Speciality & Other Finance	3,571
DBS Group Holdings	Banks	3,478
Australian Gas Light Company	Utilities	3,449
Woodside Petroleum	Oil & Gas	3,436
PTT	Oil & Gas	3,414
Jardine Matheson Holdings	Diversified Industrials	3,351
Siam Commercial Bank	Banks	3,175
Singapore Press Holdings	Media & Photography	3,099
HM Sampoerna	Tobacco	3,071
Henderson Land Development	Real Estate	3,060
National Australia Bank	Banks	2,888
China Mobile	*Telecommunication Services*	*2,868*
Samsung Electronics	Info.Tech. Hardware	2,741
Public Bank	Banks	2,696
Siam Cement	Construction & Building Materials	2,597
Hyundai Motor	Automobiles	2,584
Malayan Banking	Banks	2,575
United Microelectronics	Info.Tech. Hardware	2,471

Dah Sing Financial	Banks	2,435
Huaneng Power International	Electricity	2,390
Telekom Malaysia	Telecommunication Services	2,303
Hongkong Electric Holdings	Electricity	2,129
Fraser & Neave	Beverages	2,091
Kookmin Bank	Banks	2,075
Woolworths	Food & Drug Retailers	2,023
BAT Malaysia	Tobacco	1,989
Zhejiang Expressway	Transport	1,924
Café de Coral Holdings	Leisure, Entertainment & Hotels	1,845
CNOOC	Oil & Gas	1,841
People's Food Holdings	Food Producers & Processors	1,748
Sinopec	Oil & Gas	1,739
Li & Fung	Household Goods & Textiles	1,704
Genting	Leisure, Entertainment & Hotels	1,675
Bangkok Bank	Banks	1,674
Dairy Farm International Holdings	Food & Drug Retailers	1,560
Yangzhou Coal Mining	Mining	1,521
Singapore Exchange	Speciality & Other Finance	1,460
Wesfarmers	Diversified Industrials	1,453
United Overseas Bank	Banks	1,403
The Korea Fund	Investment Companies	1,363
PT Telekomunikasi Indonesia	Telecommunication Services	1,333
Telstra	Telecommunication Services	1,319
Tanjong	Leisure, Entertainment & Hotels	1,314
Newcrest Mining	Mining	1,313
Cheil Communications	Media & Photography	1,308
Singapore Technologies Engineering	Aerospace & Defence	1,276
Pusan Bank	Banks	1,203
China Overseas Land	Real Estate	1,114
Beijing Capital International Airport	Transport	1,102
Lifestyle International Holdings	General Retailers	1,095
Wumart Stores	General Retailers	1,043
Oxiana	Mining	1,040
Siam Panich Leasing	Speciality & Other Finance	1,010
Jiangsu Expressway	Transport	957
Taiwan Secom	Support Services	908
Cochlear	Health	800
Convenience Retail Asia	Food & Drug Retailers	481

Total 158,861

Rest of the World

	Sector	£000
America Movil	Telecommunication Services	3,250
Eastern European Trust	Investment Companies	3,089
Teléfonos de México	Telecommunication Services	2,282
Genesis Chile Fund	Investment Companies	1,150
Grupo Televisa	Media & Photography	936

Total 10,707

Fixed Income Preference Stocks

	£000
HBOS 9.25% Non Cumulative Preference	7,550
National Westminster 9% Preference	7,383
Abbey National Preference (10.375%) 9.3375%	5,680
Aviva 8.375% Cumulative IRR Preference GBP1	4,363
General Accident 8.875% Preference	3,642
HBOS 9.75% Non Cumulative Preference	3,056
Standard Chartered 7.375% Preference	2,846
National Westminster 8.125% Eurobond	1,545
Aviva 8.75% Preference	1,046
Halifax 6.125% Preference	1,003
Second Alliance Trust 4.5% Cumulative Preference	264

Total 38,378

Investments include US Oil and Mineral Rights **Total 3,180**

Total Investments 1,604,513

Investment Companies

£000

Investment company holdings are listed above in the geographic area or sector in which they invest. They are also grouped here so that stockholders can see our total exposure to other investment companies.

Candover Investments	6,957
Aberforth Smaller Companies	6,853
Standard Life European Private Equity	6,390
SVG Capital	6,071
UK Balanced Property Trust	3,931
Eastern European Trust	3,089
Merrill Lynch World Mining Trust	2,868
Dunedin Buyout Fund	1,671
The Korea Fund	1,363
Bioscience Investment Trust (formerly 3i Bioscience)	1,194
Genesis Chile Fund	1,150
Albany Ventures Fund	919
JPMorgan Fleming Japan	657
Second Alliance Trust (Preference)	264
Herald Ventures II Limited	150

Total 43,527

Alliance Trust Savings ('ATS') is the only financial services company owned by UK investment trusts which designs, provides and administers a range of wrapper products in-house. The profits of ATS contribute to the earnings of the Group.

Review and Outlook

In 2004 we saw investor confidence returning with noticeable growth in contributions to investment plans with ATS.

Gross cash inflows into ATS products over the last year reached their highest ever level of £199m and net inflows to all ATS products remained positive. For the tax year which ended in April 2004, ATS saw subscriptions to ISAs increase by 2% which compares very favourably with the savings industry as a whole where subscriptions to stocks and shares ISAs fell by 13%. While for the year to 31 January 2005 gross inflows into ATS ISAs rose by 9%, we did experience increased outflows from both PEPs and ISAs, reflecting industry trends following the Government's removal of the tax credit reclaim from April 2004.

In addition, ATS continues to attract significant levels of ISA and PEP transfers as investors seek to realise the benefits of consolidation with a single provider. During the year ATS received over 1,500 PEP and ISA transfers.

The Select Investment Plan continues to grow with over 10,000 customers now using the plan as a home for their non-tax wrapped savings and investment needs. In recognition of the importance of the growing demand for good value products for saving for children, during the year ATS introduced First Steps, a version of the Select Investment Plan designed specifically for the childrens' market with additional benefits available to the account holder when investing in either the Company's stock or that of the Second Alliance Trust.

Assets held by ATS for its Customers

	£m
Alliance Trust	243
Second Alliance Trust	122
Other Investment Companies	487
Equities and other securities	517
Cash	76
Total	**1,445**

Figures as at 31 January 2005

The need for higher levels of saving for retirement was a recurring theme in news headlines throughout the year and growing investor requirements for good value, cost effective, self-invested personal pensions (SIPPs) resulted in continued interest in ATS' Select Pension. Over the last 12 months customer numbers for the Select Pension grew by 12%. ATS' SIPP business has been boosted by taking transfers of occupational pensions, a service which it made available in November 2004.

ATS' position as a leading provider of wrapper products was further recognised in 2004 with the introduction of a bespoke version of the pension for Baillie Gifford. This is being marketed by Baillie Gifford to current and prospective investors in their managed range of investment trusts and funds.

During the year ATS introduced a number of enhancements to its products, simplified its operations and made the process of investing faster and better value for the customer.

Looking ahead, we believe that the financial services marketplace offers significant potential for ATS as more individuals seek to realise the benefits of good value, transparent, savings vehicles. The announcement by the Chancellor in his pre-Budget statement that he will consult on keeping ISA subscription limits unchanged for the next five years is a welcome step in further restoring confidence amongst long term savers. Further, the simplification of the pension tax regime being implemented in April 2006 will offer major growth opportunities as government policy seeks to reduce the burden on the state through stimulating private sector saving for retirement.

Plans Administered by ATS as at 31 January 2005

	Customers		Customer Assets	
	Numbers	Change over one year	£m	Change over one year
Investment Plan*	10,202	4%	198	26%
PEP	18,009	(4%)	776	14%
ISA	16,938	0%	303	31%
SIPP	4,854	12%	168	37%
Total	**36,042†**		1,445	21%

† Some investors have more than one Plan.

* Includes First Steps, introduced 5 July 2004.

ATS Ten Year Growth to 31 January 2005

Source: Internal

In this section we report to you on our structure and corporate governance principles and processes. The statement regarding compliance with the Combined Code on Corporate Governance, as required by the rules of the UK Listing Authority, is on page 34.

Corporate Structure

Investment Trust Status

The Alliance Trust PLC is an investment company. After each accounting period it seeks approval to qualify as an investment trust under the Taxes Acts from the Inland Revenue. Since receiving the last approval, which was for the year ended 31 January 2004, the Company has conducted its affairs to enable it to continue to seek approval.

Structure

The Company has investments in subsidiary companies, principally Alliance Trust Savings Limited ('ATS') and Alliance Trust (Finance) Limited ('ATF'). ATS, which is authorised and regulated by the Financial Services Authority, provides and administers a range of investment 'wrapper' products in the form of PEPs, ISAs, SIPPs and Investment Plans. ATF invests its assets to generate income and also acts as agent for the acquisition of supplies required by the Group and The Second Alliance Trust PLC ('the Second Alliance Trust').

The Company operates in parallel with the Second Alliance Trust. This arrangement goes back to the end of the First World War when another, smaller, Dundee company, then called the Western & Hawaiian Investment Company, arranged with the Company to share office, administration and staff costs. In 1923 this smaller company changed its name to the Second Alliance Trust. The directors of both companies are the same individuals.

Together, the Alliance Trust and the Second Alliance Trust own ATS and ATF, with the Alliance Trust having a 75% shareholding in both companies.

The Board

The Alliance Trust has a board of executive and non-executive directors who are collectively responsible for the control of the Group. The board's main duties are:

- To set the objective of the Group and to use its best endeavours to achieve that objective. The objective is set out on page 3.
- To formulate business strategy.
- To provide leadership within a framework of prudent and effective controls which enables risk to be assessed and managed.
- To set the standards and values of the Group and ensure that we understand and meet our obligations to our stockholders and others.
- To approve asset allocation and gearing strategy proposed by management.
- To monitor performance.

Executive Directors

Alan Harden	Chief Executive
David Deards	Finance Director
Sheila Ruckley	Director of Corporate Development
Alan Young	Investment Director

Each of the executive directors served throughout the year. The Chief Executive is responsible for delivering the strategic objectives agreed by the board and for the day-to-day running of the Group.

Non-executive Directors

Lesley Knox	Chairman of the Company and Chairman of the Nomination Committee
William Berry	Senior Independent Director
William Jack	Chairman of the Audit Committee
Gordon McQueen	Chairman of the Risk Review Committee
Christopher Masters	Chairman of the Remuneration Committee

All the non-executive directors serve on one or more committees of the board. The committees are the Nomination Committee (page 32), the Remuneration Committee (page 32 and pages 38-40), the Audit Committee (page 35) and the Risk Review Committee (page 35).

Corporate Governance Report

Lesley Knox was appointed Chairman of the board by her fellow directors with effect from 30 April 2004 when Bruce Johnston retired. She has been a board member since June 2001 and, on appointment, satisfied all of the tests of independence set by the Combined Code.

Mrs Knox has several directorships of public companies but, save for the Second Alliance, no other chairmanships. The time commitment of the Chairmanship was fully considered by her and with the other members of the board before her appointment.

Gordon McQueen was appointed a director on 2 June 2004 and appointed Chairman of the Risk Review Committee on its formation in September 2004. The other non-executive directors served throughout the year.

Including the Chairman, non-executive directors form a majority on the board and, excluding the Chairman, there are four independent non-executive directors and four executive directors. As well as those collective duties which they have as members of the board, they scrutinise and constructively challenge the performance of the executive, help develop strategies, monitor the integrity of the financial information, and satisfy themselves that financial controls and systems of risk management of the Group are robust and defensible. Non-executive directors, through the Remuneration Committee, fix the remuneration of the executive directors and, through the Nomination Committee, are primarily responsible for succession planning.

There is a division of responsibility between the Chairman, whose duty is to run the board effectively, and Chief Executive, who is charged with running the business of the Group effectively. The Chairman has no executive responsibility. The Chief Executive is accountable to the board for the financial and operational performance of the Group. This separation of roles is documented in Lesley Knox's letter of appointment and Alan Harden's job description, both of which have been agreed by the board as a whole.

The Senior Independent Director is the director to whom stockholders should turn if they have issues which they consider are not being dealt with by the Chairman or the Chief Executive or if contact with the Chairman or Chief Executive is inappropriate for any reason.

Attendance at Meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Review Committee
Number of Meetings in the year	**12**	**6**	**6**	**1**	**1**
Lesley Knox	12	2 (2)*	1 (1)*	1	1
Bruce Johnston	3 (3)†	-	-	-	-
Alan Harden	12	-	-	1	-
William Berry	12	6	6	-	-
David Deards	12	-	-	-	-
William Jack	11	6	5	1	-
Christopher Masters	10	5	6	1	1
Gordon McQueen	7 (8)§	-	2 (2)§	-	1
Sheila Ruckley	12	-	-	-	-
Alan Young	12	-	-	-	-

The number of board and committee meetings attended by members during the year are set out in the table above. Where a director joined the board during the year, or committee membership changed, the maximum number of meetings which that director could have attended is shown in brackets.

* Not a member after appointment as Chairman 30 April 2004.

† Retired 30 April 2004.

§ Appointed a director 6 June 2004.

Independence of Directors

The board has carefully considered the Combined Code guidance on independence of non-executive directors including the principle that independence is evidenced by an individual being independent of mind, character and judgement. Independence can be present regardless of any relationship or circumstance which may give rise to a presumption that it is absent, such as length of service on the board for a longer period than is currently recommended in the Code.

The board considers that all of the non-executive directors, including William Berry who has been a director for more than nine years, are independent of mind, character and judgement and satisfy the independence test. Each non-executive director is free of relationships and circumstances which might cause him or her to be considered not independent. William Berry's training as a lawyer and experience as a director and trustee over time equip him to maintain his independence *notwithstanding that his service has been a short period longer* than the Combined Code recommendation. By reason of his experience, William Berry was asked by the board to stay on during the recent change of Chief Executive and Chairman. He is now 65 and will retire from the board at the end of the Annual General Meeting in April 2005.

On William Berry's retirement the board will comprise a non-executive Chairman, three independent non-executive directors and four executive directors. The board intends to restore the balance of independent non-executive and executive directors by appointing a further non-executive director as soon as is practicable.

On William Berry's retirement, William Jack will assume the responsibilities of Senior Independent Director.

Information and Professional Development

All directors receive a formal induction to the affairs and business of the Group, which may include, where appropriate, meeting with both institutional and private stockholders. Training and professional development courses are also made available as required.

The Chairman ensures that all directors receive accurate, timely and clear information for board meetings and, with the Company Secretary, that good information flows are maintained between the management and the board and within the board and its committees. Non-executive directors meet with senior managers and other staff. All directors receive briefings and updates on the business and changes to the business, and on legislation and corporate governance.

Meetings

The directors meet formally on a regular basis at least ten times in the year. Ad hoc meetings may also be convened, and the committees of the board meet as required to discharge their specific duties.

Any director, executive or non-executive, can raise issues for discussion at a board meeting. At the direction of the Chairman, the Company Secretary prepares an agenda for each meeting with appropriate reports and background information. The board may, and in practice does if necessary, ask for further information before making decisions. Decisions are made collectively. If there were an even division on a subject, the Chairman would have a casting vote.

In addition to regular board meetings, the Chairman meets at least once each year with the non-executive directors only, and the non-executives, led by the Senior Independent Director, meet at least once a year without the Chairman present. Ad hoc meetings among these groups also take place if required.

Decision Making

Delegation to the executive is necessary for the efficient running of the Group. While the Chief Executive and his team are responsible for operational matters generally, there are some issues which are specifically reserved for decision of the board as a whole. This may be because of their strategic importance (such as borrowings or commencing a new business), their significance (such as changes in the Group's management *structure), or their reputational sensitivity (such as litigation).* These issues may cover operational matters. The board itself decides which matters are reserved to it.

Access to Advice

The board has set out for all directors a process whereby, on reference to the Chairman or Chairman of the Audit Committee, each may individually access independent professional advice, at the Company's expense, if necessary.

Each director has direct access to the Company Secretary to obtain information and assistance as required. The Company Secretary, through the Chairman, advises the board on corporate governance matters.

Corporate Governance Report

Evaluation of Directors' performance

This year for the first time, as required by the Combined Code, a formal evaluation of the board has been carried out to determine how effectively the board as a whole, its individual directors and its committees are functioning. The board approached this evaluation with the intention of focussing on the board's overall contribution and identifying areas for potential improvement. The directors made written comments on the performance of the board as a whole which were collated by the Company Secretary and discussed by the board. The Chairman discussed individual performance with each director and the Senior Independent Director held discussions with directors about the Chairman's performance and discussed the results with the Chairman. The chairman of each of the board committees required by the Combined Code also received written comments on that Committee's performance from its members and discussed these with the board as a whole.

Audit Committee

Please refer to page 35.

Risk Review Committee

Please refer to page 35.

Remuneration Committee

The Remuneration Committee fixes the remuneration of the Chairman and the Chief Executive and, after taking independent advice and consulting with the Chief Executive, the remuneration of the other executive directors. It also monitors and makes recommendations on the remuneration policy for senior management. The Committee members are Christopher Masters (Chairman), William Berry, William Jack and Gordon McQueen who joined the Committee in July 2004. Lesley Knox was a member until her appointment as Chairman of the board in April 2004.

For more detail on the remuneration of directors and the role of the Remuneration Committee, please refer to the Directors' Remuneration Report on pages 38 to 41.

Nomination Committee and Appointments

The board appointed a standing Nomination Committee with effect from 1 February 2004. Its members are Lesley Knox, William Jack, Christopher Masters, Alan Harden and, since 16 July 2004, Gordon McQueen. The Terms of Reference of the Committee include the responsibility to have regard to the succession of the board and to identify and nominate candidates to fill vacancies. It is the Company's policy that the Chairman of the Company does not serve on any Nomination Committee dealing with the nomination of his or her successor, nor does any director proposed to succeed to such office.

When a succession need is identified, the Nomination Committee will consider what background skills and qualities would best suit the needs of the board and the Group and prepare a specification of the role and a candidate profile. It invites directors to make any proposals, and appoints search agents to seek out candidates matching the profile. The Committee considers all candidates brought to its attention, including those nominated by directors. The Committee recommends the candidates it considers best fulfil the criteria to the full board, which decides on the appointment.

Before the appointment of the standing Nomination Committee, the board as a whole considered succession issues and committees of the board were formed to identify and recommend candidates in respect of each appointment identified.

Executive Committee

An Executive Committee, appointed by the Chief Executive, considers and assists in day-to-day matters concerning the running of the Group. The Committee comprises all the executive directors and

Gill Cattanach	Head of Group Marketing
Ian Goddard	Company Secretary
Grant Lindsay	Head of Equities
Rowland Strickland	Chief Operating Officer and Director, ATS

Material Interests

During the year, no director had any material interest in any contract, being a contract of significance, with the Company or any subsidiary company or was connected to any adviser or supplier who had such an interest.

Re-election of Directors

All appointments to the board are subject to approval by the stockholders at the Annual General Meeting ('AGM') next following the appointment. The Articles of Association require that all directors are subject to re-election by the stockholders at least every three years. Non executive directors will normally retire from the board after nine years' service.

Gordon McQueen joined the board in June 2004 and his appointment is subject to approval by stockholders. At the AGM on 29 April 2005, Lesley Knox and Alan Young will retire by rotation and stand for re-election. The board recommends the re-election of Gordon McQueen and Alan Young by stockholders. Mrs Knox has been appraised by her fellow directors, all of whom recommend her re-election to the board and continuation in office as Chairman.

In common with the other executive directors, Alan Young has a contract of service with the Company which is terminable by the Company on one year's notice. In common with the other non-executive directors, Lesley Knox and Gordon McQueen do not have service contracts.

Biographical details of all directors are on page 37.

Stockholders are referred to the Notice of the AGM, which is in a separate document from this report and which contains more information about the directors to be re-elected.

Directors' Stockholdings

All directors must hold at least 200 ordinary stock units. Details of their holdings are shown in the table below.

No director has any interest in the Company's preference stocks or debenture stock. No director, nor any member of any director's immediate family, has been granted options to subscribe for stock or debentures in the Company, or in any Group company save that the executive directors are interested in the proposed Senior Management Equity Incentive Plan described on page 41.

Relationships with Stockholders

The board is collectively responsible for ensuring that a meaningful dialogue is maintained with stockholders.

As well as meetings with institutional stockholders, which are largely conducted by the Chairman, Chief Executive and the Finance Director, the executive directors meet with private stockholders at investor seminars which are held throughout the UK. The Chairman relates to the board those issues raised with her by major and other stockholders. All directors see correspondence from stockholders on Company issues.

The AGM is a forum for all those who hold stock in the Company to meet with the directors and to ask questions. We encourage all stockholders to attend and take part, including those who hold their stock through nominees.

We are required to report to you which stockholders have told us that they own more than 3% of our ordinary stock. Where the stock is in a nominee for beneficial owners who retain voting rights, the holding must be notified to the Company when it reaches 10% of the ordinary stock.

Below we give a table which shows who has notified us of a 3% or more holding. It also states the percentage of stock held by the nominee for the ATS customers who retain voting rights.

	Ordinary stock units as at 11 March 2005	
Alliance Trust Savings Limited	8,571,351	(17.01%)
DC Thomson & Co Limited	3,241,503	(6.43%)
The Standard Life Assurance Company	1,739,553	(3.45%)
Legal & General Investment Management Limited	1,518,366	(3.01%)

Political and Charitable Donations

During the year we made no political or charitable donations. We are members of ProShare, which has charitable status. ProShare promotes the rights of private stockholders and supports education on share ownership. We contributed £4,005 (£6,494) to Proshare this year.

Directors interests (ordinary stock units of 25p)

	As at 1 February 2004 *or date of appointment		**As at 31 January 2005**		Acquired between 31 January 2005 and 11 March 2005	
	Beneficial	Non-Beneficial	**Beneficial**	**Non-Beneficial**	Beneficial	Non-Beneficial
Lesley Knox	770	-	**1,255**	-	23	-
Alan Harden	372	-	**728**	-	27	-
William Berry	2,913	500	**2,979**	**500**	-	-
David Deards	1,200	-	**1,384**	-	9	-
William Jack	1,000	-	**1,000**	-	-	-
Christopher Masters	503	-	**511**	-	-	-
Gordon McQueen	200*	-	**200**	-	-	-
Sheila Ruckley	1,840	-	**2,085**	-	45	-
Alan Young	2,817	-	**3,004**	-	9	-

Acquisition of stock between 31 January 2005 and 11 March 2005 has been pursuant to standing instructions through plans provided by ATS, and the All-Employee Share Ownership Plan.

* On appointment

Corporate Social Responsibility

In carrying out our activities and in our relationships with our employees, suppliers and community, we aim to conduct ourselves responsibly, ethically and fairly.

Payment of Creditors

We always try to achieve favourable terms when buying supplies. Contracts and payment terms are carefully scrutinised and we pay in accordance with the contract agreed, which may be the suppliers' own terms. Investment purchases are settled in accordance with the terms of the exchanges on which the investments are listed. The Group has not adopted any code or standard on payment practice.

The Group anticipates no change in its purchasing practices in the current financial year.

At 31 January 2005 the Company had no trade creditors. ATS, its principal operating subsidiary, had trade creditors equivalent to 8 (20) days of average purchases.

Green Disclosures

In carrying out our activities over the last year, our UK greenhouse gas emissions by reason of the Group's activities (office heat and power requirements and employee travel), calculated in accordance with reporting guidelines issued by the Department for Environment, Food and Rural Affairs amounted to 146(123) tonnes of carbon dioxide. This is the equivalent of operating 12.9(10.9) three bar electric fires for a year.

Social Responsibilities and Environmental Issues

In addition to evaluating a Company's management we review its policies and behaviour on issues of social responsibility and environmental impact. These factors are considered when we make our initial investment decision and are reviewed regularly.

Voting

It is the Company's policy to exercise, wherever practical, its vote at meetings of companies in which it owns shares. We may engage in dialogue with the company on particular issues, and if not satisfied may vote against the recommendation of the board of a company in which we hold an investment. Any proposal to vote against the recommendation of the board of the company in which the shares are held requires the approval of an executive director. Decisions to vote against such recommendations are reported to the board.

Compliance with the Code of Best Practice

Pages 28-35 of this report, together with the directors' remuneration report on pages 38-41, disclose the application by the Company of the Combined Code on Corporate Governance, as required by the UK Listing Authority.

The board reports that it has complied with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 except that in the year to 31 January 2005, performance related pay did not form a substantial part of the executive directors' remuneration before 1 August 2004, which is explained in the Directors' Remuneration Report on page 39, and there was no insurance cover in place in respect of legal action against the Company's directors. In addition, from 30 April 2004, when Bruce Johnston retired from the board and Lesley Knox became Chairman, there were four executive and four non-executive directors until the appointment of Gordon McQueen as a director on 6 June 2004. Accordingly during that period there was an equality in number of executive and non-executive directors and, excluding the Chairman, less than half of the board members were independent non-executives.

Accountability and Audit

Directors' Responsibility for the Accounts

The directors are required by law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the revenue and cash flows for the year.

In addition, the directors are responsible for ensuring that adequate accounting records are maintained, for safeguarding the assets of the Group and for taking reasonable steps to prevent and detect fraud or other irregularities.

The Company and the Group have, in the opinion of the directors, adequate resources to continue operation as a going concern for the foreseeable future, and the financial statements of the Company and the Group for the year ended 31 January 2005 have been prepared on that basis.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in their preparation and that applicable accounting standards have been followed.

Audit Committee

The Audit Committee's duties include reviewing and reporting to the board on:

- The annual and interim financial statements and the accounts, together with the form of proposed announcements and reports relating to the Company's financial performance.
- The integrity and effectiveness of accounting and financial controls and the system of internal control.

The Committee has a specific function to review the scope and effectiveness of the audits which are carried out by the external and internal auditors. It reviews the independence and objectivity of the external auditors, supervises the function of the internal audit and facilitates the work of both the external and internal auditors. It reviews any non-audit services provided by the external auditor. In 2004 the Committee put the external audit out to tender. The board now recommends to stockholders, as it did after the tender process, that KPMG Audit Plc should be reappointed as auditor.

The Audit Committee is also the forum where any member of staff may, in confidence, raise matters of concern about possible improprieties in matters such as financial reporting, and it has the power to investigate any matters raised.

The Committee members are William Jack (Chairman), William Berry and Christopher Masters. Lesley Knox was a member until her appointment as Chairman of the Company in April 2004.

Risk Management

A key responsibility of the board is to understand the nature and extent of the risks which are inherent in carrying out the Group's business.

The board has approved a risk management policy for the Group. We continue to improve our processes to identify and evaluate risks and to demonstrate that risks are managed on a basis that does not compromise compliance with statute and regulatory provision or adherence to good business management. Central to the risk management framework is embedding an understanding of risk and ensuring that staff take responsibility for the management of risk in the areas for which they are responsible.

During 2004 an executive Risk Management Committee which reports to the Chief Executive was established. In addition, a non-executive Risk Review Committee was formed.

Risk Review Committee

The Risk Review Committee is a new committee of the board which has been set up to enhance the risk management function during a period of substantial business change. Its duties include reviewing the framework and procedures which are in place for controlling, monitoring and managing risks, and it advises the board on risk issues. It considers whether the risk management framework is dynamic with respect to both external and internal factors. The Committee may commission reports and explanations from management and third parties where it considers risks are not being properly identified or managed, and it may agree appropriate action plans and monitor progress against them. It also reviews the minutes of the Risk Management Committee meetings. The Risk Review Committee members are Gordon McQueen (Chairman), Lesley Knox and Christopher Masters.

Corporate Governance Report

Internal Control

The board is responsible for the Company's system of internal control. A robust system of internal control fits into the framework of risk management. The board confirms that procedures which accord with the guidance published in 1999 (the Turnbull guidance) for compliance with principle D of the Combined Code (internal control) have been in place for the year under review and continue to be in place.

These procedures include a review by the board, on at least an annual basis, of the scope and effectiveness of the system for internal control. This includes the consideration of financial, operational and compliance controls as well as of significant business risks and any changes in the nature and extent of those risks since the last review.

No system of internal control can give an absolute assurance against misstatement or loss. It should prevent or detect areas of shortcoming and minimise the risk of loss through incompetence, neglect of duty, mistake or fraud.

The main control mechanisms in place include:

- Separation of the roles of Chairman and Chief Executive on the board
- Strong non-executive directors and robust Audit and Risk Review Committees
- Clear departmental structures, backed up by inter-departmental support functions
- Clear authorisation limits
- Segregation of duties such that no one person can control or influence all aspects of one function or carry out and settle any individual transaction
- A rolling internal audit programme
- Compliance monitoring programme for ATS

Investment Risk and Financial Instruments

Risk is inherent in all forms of investment which aim to give a financial return. We seek to manage this risk primarily through a judicious choice of investments diversified across different business sectors and economies. Notwithstanding diversification, in the short term the aggregate valuation of these investments is subject to considerable fluctuation in response to changes in, for example, inflation, interest rates, currency exchange rates and market sentiment. Cumulative effects of dividend income and its reinvestment, along with long term growth can compensate for short term fluctuations in capital value.

The Company does not seek to enhance returns by engaging in trading activity itself, although it invests in companies that trade. The Company may borrow and may make use of financial instruments and derivatives in order to enhance returns or to mitigate risks. Borrowing, financial instruments and derivatives carry their own risks, which must be managed effectively. During the last financial year, except for its long term debentures, the Company did not borrow or use any financial instruments or derivatives.

By order of the Board

Ian Goddard

Ian Goddard, Company Secretary

Dundee, 21 March 2005

Directors

Lesley M S Knox MA (Chairman) (51) Joined the board 2001; appointed Chairman 2004; Chairman of the Nomination Committee ▲◆

Lesley Knox (*pictured centre*) qualified as a lawyer and worked in the UK and US advising companies on a range of commercial matters. Subsequently she worked as a corporate finance adviser first with Kleinwort Benson where in 1996 she became a director, and then as a founder director of British Linen Advisers. She was also Head of Institutional Asset Management at Kleinwort Benson Investment Management which provided investment services to clients worldwide. Other directorships include Hays PLC, HMV Group PLC and MFI Furniture Group PLC.

Non-Executive Directors *From left to right*

William Berry MA LLB WS (65)

Joined the board 1994; Senior Independent Director ■ ●

William Berry is the former chairman of Murray Beith Murray, an Edinburgh law firm which has an important investment presence, managing and administering funds for many private clients. He is Senior Governor of the University of St Andrews and was formerly chairman of Scottish Life Assurance Company.

Other directorships include JPMorgan Fleming Continental European Investment Trust plc and The Scottish American Investment Company PLC.

William H Jack (60)

Joined the board 2000; Chairman of the Audit Committee ■ ● ▲

William Jack joined the General Accident Fire & Life Assurance Company in 1973, and was the Managing Director of GA Life (subsequently CGU Life), with the responsibility for the UK life and unit trust business, from 1991 to 2000.

Other directorships include Skipton Company Holdings.

Christopher Masters CBE FRSE BSc PhD AKC (57)

Joined the board 2002; Chairman of the Remuneration Committee ■ ● ▲ ◆

Christopher Masters took his doctorate in Chemistry at Leeds University and worked for Shell Research BV in the Netherlands and then Shell Chemicals in the UK. He joined Christian Salvesen as business development manager in 1979, becoming director of planning for its US operation and then Chief Executive from 1989 to 1997. He was then appointed Executive Chairman of Aggreko PLC, a post he held until January 2002. He is currently Chairman of SMG PLC and also chairs the Scottish Higher Education Funding Council and the Festival City Theatres' Trust.

Other directorships include British Assets Trust PLC and John Wood Group PLC.

W Gordon McQueen BSc CA FCIBS (58)

Joined the board 2004; Chairman of the Risk Review Committee ■ ▲ ◆

Gordon McQueen graduated in Chemistry and trained as an equity portfolio fund manager before embarking on a banking career. He is a former Chairman and Chief Executive of HBOS Treasury Services PLC. He is a former Finance Director of Bank of Scotland and served on the boards of HBOS plc and Halifax plc as an executive director following their merger in 2001 until the end of 2003. He has experience in many areas of the financial services business, particularly in international banking, corporate and commercial banking, treasury and finance.

Other directorships include Scottish Mortgage Investment Trust PLC where he is a non-executive director and chairs the audit committee and JPMorgan Fleming Mid Cap Investment Trust plc.

■ Member of the Remuneration Committee ● Member of the Audit Committee

▲ Member of the Nomination Committee ◆ Member of the Risk Review Committee

Executive Directors *From left to right*

Alan J Harden (47)

Joined the Company 2003; Chief Executive 2004 ▲

Alan Harden started his career in the investment industry in 1978 with Abbey Life and JBI in the UK, Europe and Cyprus; before joining Wardley (part of HSBC) in 1984, running the asset management department in Cyprus, before moving to Dubai UAE, and then to Hong Kong as senior investment manager. In 1990 he joined Standard Chartered Bank as Managing Director of Scimitar Asset Management based in Singapore, responsible for activities and assets in South East Asia. In 1994 he became Global Head of Investment Services, leading Standard Chartered to become the largest fund distributor in Asia. In 2000 he moved to Citigroup Asset Management, and from his base in Japan, was head of the asset management business in the Asia Pacific region and a member of the Global Executive Committee. He joined the Company in November 2003 and was appointed to the board on 1 January 2004, the date on which he took up the responsibilities of Chief Executive.

Alan Harden is also a director of the Scottish Community Foundation.

Alan M W Young MA LLB (58)

Joined the Company 1986; appointed to the board 1992

Alan Young read law at Edinburgh and worked in London at Buckmaster & Moore, stockbrokers, before joining the investment department at Gartmore as an analyst and fund manager. He became a director of Gartmore's pension and investment trust management arm in 1983. On joining the Company he managed the UK and European portfolios before becoming Investment Director.

Sheila M Ruckley MA LLB DLP (55)

Joined the Company 1988; appointed to the board 2000

Sheila Ruckley studied in the UK and at Wellesley College and the University of Pennsylvania before qualifying as a solicitor in Scots and English law. She joined the Company in 1988, becoming Company Secretary in 1989, an office she held until 2000 when she was appointed a director. She had a close involvement with the development of ATS, initially on the compliance side and then taking responsibility for the introduction of ATS' self-invested personal pension. As a director she first developed the investor relations function within the organisation before taking responsibility for the establishment of the risk management framework. This risk management role was handed over to the Finance Director in January 2005 and she is now looking at corporate development within the Group.

David A Deards BA ACA (45)

Joined the Company and the board 2003

David Deards read zoology at Oxford and qualified as a chartered accountant with Arthur Young (now Ernst & Young) before joining Ansbacher & Co, where he gained considerable experience in corporate finance and banking and investment product development, and became a director in 1995. He joined the Company as Finance Director in 2003.

All are also Directors of The Second Alliance Trust PLC and Alliance Trust Savings Limited. Ages are at 21 March 2005.

Directors' Remuneration Report

In this section, we report to you on the remuneration of the directors in the year to 31 January 2005. At the AGM, the stockholders will be asked to approve this report. The vote is advisory and will not affect the remuneration which has been paid, but the Senior Management Equity Incentive Plan referred to below cannot be implemented without stockholder approval.

Remuneration Policy

For all directors, the Company's policy is that remuneration should be set at a level to attract and retain individuals of high calibre, and that it should reflect their respective responsibilities. All directors are appointed on the basis that they are competent to do the job, have the potential to deliver the objectives of the Group and are motivated by the alignment of their own interest with that of the stockholders.

To understand the framework for paying directors, it is important to look at the non-executive and executive directors separately since they have different roles on the board, as explained on page 29.

Non-executive Directors

Non-executive directors are not salaried employees and do not have employment contracts. They do, however, have written terms of appointment which set out the expected term of office, the expected time commitment and responsibilities. these terms are available for inspection at the Company's registered office and at the AGM. They are initially appointed for a term of 3 years.

The maximum aggregate amount of fees which can be paid to the non-executives each year has to be approved by the stockholders at a general meeting, such as an AGM, in accordance with the Articles of Association. The current aggregate amount is £120,000.

Within this aggregate, the Remuneration Committee determines the Chairman's fees and the board as a whole determines what the other non-executives should receive. The fees, which are reviewed at 2 year intervals, are set to take into account the time and responsibilities of the roles. No individual plays a part in the decision on his or her own remuneration. Independent consultants advise on issues of comparability, taking into account the nature of the duties to be performed and the time commitment involved.

The fees paid to the individual non-executive directors are set out in the table on the next page.

Executive Directors

Executive directors are salaried employees. They do not receive any fees as directors. The level of their salaries is not laid down in the Articles of Association, but is determined by the Remuneration Committee of the board, which is composed entirely of the independent non-executive directors and is chaired by Christopher Masters. No director is involved in deciding his or her own remuneration.

The Remuneration Committee appoints and takes advice from independent consultants on the comparability of executive directors' salaries. This advice is set against the position of the Company compared to its peers and the general level of remuneration and pay awards in the Group. Such advice may include advice on pension and remuneration issues generally as they affect all staff of the Group. In 2004 this advice was provided by Ernst & Young LLP. Ernst & Young LLP have no connection with the Company other than by providing consultancy services.

Each of the executive directors has a contract of employment. These contracts are available for inspection at the Company's registered office and at the AGM.

Some features of the executives' contracts are:

- They are terminable on one year's notice by the Company and on six months' notice by the director.
- Alan Harden's contract contains express mitigation provisions should his contract be terminated.
- The other executive directors have acknowledged in writing that they have a duty to mitigate loss in the event of early termination and the Remuneration Committee has a responsibility to take into account this duty before deciding upon compensation.
- All executive directors must retire at age 60.

The remuneration packages of the executive directors comprise:

- Salary, which is set at a level to reflect individual responsibility and performance and is reviewed annually.
- Defined benefit pension arrangements.
- Death in service insurance and disability insurance. These are insured benefits which have no value on leaving service.
- Private health care which extends to any spouse and any unmarried children under 25.
- Since August 2004, eligibility for a bonus of a maximum of 50% of salary depending on performance.
- After six months' service, ordinary stock units in the Company awarded in terms of the performance-based All-Employee Share Ownership Plan ("AESOP"). The maximum allocation is stock to the value of £3,000 in any one year. Performance targets are set annually.

Performance Related Remuneration

The Company's Remuneration Committee has conducted a review of the remuneration paid to executive directors and members of the senior management team, with particular emphasis on the question of whether some form of specific performance related element should be introduced into their overall packages. This review was prompted by a number of factors including the following:

The majority, if not all, of the organisations against whom the Company is competing for key executive talent provide their employees with at least some form of additional performance linked remuneration over and above their basic salaries. The absence of a comparable arrangement for the Company's senior management team has made the process of recruiting and retaining such individuals more difficult.

The Combined Code on Corporate Governance recommends that a significant proportion of executive directors' remuneration should be structured so as to align rewards with corporate and individual performance. The Company's historical practice of paying no bonuses to its executive directors and offering them no form of long term incentive plan has meant that, in the past (including the year to 31 January 2005), the board has not complied with this best practice recommendation.

Against this background, the Remuneration Committee concluded that it would be in the best interests of the Company and its stockholders to introduce a performance linked element of remuneration for executive directors and other senior managers.

The Remuneration Committee considers that the arrangements summarised on page 41 best meet these interests.

Non-executive Directors† Fees Paid £

	Group 2005	Group 2004	**Company 2005**	Company 2004
Lesley Knox (appointed Chairman April 2004)	**31,500**	18,000	**31,500**	18,000
Bruce Johnston (retired as Chairman April 2004)	**9,000**	36,000	**9,000**	36,000
William Berry	**18,000**	18,000	**18,000**	18,000
William Jack	**18,000**	18,000	**18,000**	18,000
Gordon McQueen (appointed June 2004)	**12,000**	-	**12,000**	-
Christopher Masters	**18,000**	18,000	**18,000**	18,000
	106,500	108,000	**106,500**	108,000

† Non-executive directors also receive fees from the Second Alliance Trust for services as directors of that company (not shown here).

Directors' Remuneration Report

Executive Directors Remuneration† £ (Group and Company)

	Date of Contract	Salary 2005	Taxable Benefits 2005	AESOP Share Incentive Plan	Annual Bonus	Total 2005	Total 2004
Alan Harden* (appointed 1 January 2004)	15 October 2003	**187,555**	**683**	**750**	**23,906**	**212,894**	14,735
David Deards	22 November 2002	**100,625**	**683**	**1,500**	**12,656**	**115,464**	98,563
Sheila Ruckley	31 January 2001	**89,375**	**731**	**1,500**	**11,250**	**102,856**	87,554
Gavin Suggett (retired as director 31 December 2003)	6 November 1987	-	-	-	-	-	141,876
Alan Young	6 November 1987	**126,875**	**914**	**1,500**	**14,344**	**143,633**	125,343
		504,430	**3,011**	**5,250**	**62,156**	**574,847**	468,071

† Executive directors are also remunerated by the Second Alliance Trust (not shown here).

* Highest paid director during the year.

The full value of the taxable benefits of each director and AESOP costs is shown here. As part of the joint employment arrangements (see note 2 on page 48) the Second Alliance Trust contributes 25% of the cost of benefits and AESOP costs for each director.

Executive Directors Pensions £

	Accumulated Total Accrued Pension per Annum		Transfer Values			Inflation Adjusted Increase in Year	
	31 January 2004	**31 January 2005**	31 January 2004	Changes	**31 January 2005**	Accrued Pension	Transfer Value
Alan Harden†	-	**2,975**	-	-	**28,259**	-	-
David Deards	1,340	**3,188**	10,291	16,553	**26,844**	1,810	15,241
Sheila Ruckley	22,065	**24,454**	292,367	74,599	**366,966**	1,771	26,576
Gavin Suggett*	101,177		1,927,962				
Alan Young	53,167	**57,622**	851,534	180,040	**1,031,574**	2,966	53,099

† Alan Harden joined the scheme on 1 May 2005.

* Pension figures for Gavin Suggett are as at 11 May 2004, the date of his retirement as an employee of the Company.

Remuneration and Pension Entitlement

The transfer values of the accrued pensions and the transfer values of the inflation adjusted increases in the accrued pensions in the period have been calculated by the actuary of the scheme in accordance with actuarial guidance note GN11. The changes in the transfer values between 31 January 2004 and 31 January 2005 are significantly influenced by the assumptions underlying their calculation and market conditions.

The disclosure of the increases in the inflation adjusted accrued pensions and the transfer values of those increases is a requirement of the UK Listing Authority. The other disclosures are required by the Companies Act 1985.

Gavin Suggett was credited with 4 years' pensionable service in November 1973. 5 years were added in February 1983 when the pensionable service of scheme members was adjusted to equalise male and female retirement ages at 60. Both enhancements accrued evenly over the period to his 60th birthday.

Alan Young was credited with 5 years' pensionable service in August 1988. It was funded as to 2 years 1 month by a transfer in from a scheme connected with previous employment and 2 years 11 months by a discretionary increase. His service is also being enhanced by six months in respect of each actual year of service over a period of 10 years ending on his 60th birthday. His pensionable salary, like that of Sheila Ruckley, is not subject to the earnings cap as they both joined the pension scheme before June 1989. This also applied to Gavin Suggett.

Alan Harden's pension benefits accrue on the basis of a 1/30th accrual rate which is twice that of the normal accrual rate for scheme members.

From 1 April 2004, David Deard's pension benefits accrue on the basis of a 1/40th accrual rate which is one and a half times that of the normal accrual rate for the scheme.

Annual Bonus

The Company has introduced a bonus opportunity for executive directors and other senior managers with effect from 1 August 2004, and the Remuneration Committee has the discretion to repeat the opportunity in future years.

Under this bonus scheme, participants can earn a cash bonus at the end of each financial year. The grant of any award is discretionary, and the amount of the award will be calculated in part by reference to achievement against stretching performance targets that are approved and monitored by the Remuneration Committee, and in part by the Company's total stockholder return. The maximum cash bonus payable to any participant in the annual bonus scheme will not exceed 50% of their salary.

Senior Management Equity Incentive Plan

At the Annual General Meeting of stockholders, the introduction of an Equity Incentive Plan (the "Plan") for executive directors and senior managers will be proposed. If the Plan is adopted, the Remuneration Committee will have the discretion to require that one half of any bonus paid under the annual scheme will be used to purchase stock in the Company that will be held by an Employee Benefit Trust ("EBT") on the terms of the Plan. Participants will also be given the opportunity to apply some or all of their remaining bonus in purchasing further stock to be deposited with the EBT, again on the terms of the Plan.

Stock deposited with the EBT will be held by the EBT for a deferral period of three years, at the end of which an award of additional matching stock units may be made. The number of matching stock units that are awarded to a participant will depend on both the number of stock units originally deposited with the EBT and the extent to which further demanding performance conditions have been satisfied over the duration of the three year deferral period. The maximum matching award that can be made under the Plan will be two stock units for every one stock unit originally deposited with the EBT.

Where a participant leaves the Company during the three year deferral period, he or she will generally lose the opportunity to receive a matching award.

It is intended that the matching shares should be financed by the increased performance necessary to achieve the award. The awards of ordinary stock will more closely align the interests of executive directors and senior managers with the interests of stockholders.

The introduction of the Plan is subject to stockholder approval, and a more detailed explanation of how it will operate is set out in the notice of the Annual General Meeting which is sent to members with this report.

Company Performance Graph
31 January 2000 to 31 January 2005

Source: Thomson Financial Datastream

The total return on ordinary stock is the theoretical growth in value over five years, assuming that gross dividends are fully reinvested, and ignoring re-investment charges. The total return on the index is the theoretical aggregate in value of the index constituents.

Company Performance Graph

We are required to show a graph of the performance of the Company compared to a broad equity market index. The graph above compares the total return on the Company's ordinary stock to the FTSE All-Share Index.

It should be noted that the Company does not seek to track the FTSE All-Share Index. It is not used as a benchmark. It has been chosen to comply with the requirement simply because it is an index which we consider to be well known to our stockholders. The Company's assets will not necessarily perform in line with the Index.

The FTSE All-Share Index is a UK equity index, whereas a substantial part of the Company's assets are invested overseas and may not be fully invested in equities. In addition, the return on the Company's ordinary stock is partly determined by supply and demand for the stock on the stock market. This return may not equate to the return achieved by the Company on its assets.

Audit statement

The tables on page 39 and 40, together with the footnotes relating to them, have been audited by the Company's auditor whose report is on page 42.

By order of the Board

Ian Goddard, Company Secretary

Dundee, 21 March 2005

Report of the Auditor

Independent Auditor's Report to the Members of The Alliance Trust PLC

We have audited the financial statements on pages 43 to 53. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 35, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 28 to 36 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 January 2005 and of the total return of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
21 March 2005

Accounting Policies

1 Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed assets. They assume the going concern basis of accounting and that the Company will continue to have approval as an investment trust. They have been drawn up in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies".

The consolidated statement of total return and balance sheet include the financial statements of the Company and its subsidiary companies as at 31 January 2005, made up to the same date.

2 Valuation of Fixed Assets

Listed investments are valued at market prices or middle market prices as appropriate. Unlisted investments and mineral rights are valued by the board on the basis of market prices, latest dealings, stockbrokers' valuations, petroleum consultants' valuations and accounting information as appropriate. Foreign assets and liabilities are valued using the middle rates of exchange ruling at the year end.

Office premises are shown at the valuation as at 31 January 2004 carried out by chartered surveyors on the basis of existing use value. No depreciation has been charged on this asset as, in the opinion of the board, any provision for depreciation would be immaterial in relation to the revenue for the year and the assets of the Company.

3 Income

Income from equity shares is brought into account on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established.

Income includes any taxes deducted at source. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

Foreign income is converted at the rate of exchange applicable on the appropriate date.

Savings and pension plans charges are accounted for on the date on which the underlying transaction occurs.

4 Expenses and Interest

Expenses and interest are accounted for on an accruals basis using the exchange rate applicable on payment where appropriate. Expenses are charged through the revenue account except where they directly relate to the acquisition or disposal of an investment, in which case they are added to the cost of the investment or deducted from the proceeds.

5 Taxation

Deferred tax is recognised at the standard rate of corporation tax, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date. To the extent that timing differences will not be utilised, then deferred assets are not recognised.

As the Company intends each year to qualify as an investment trust under section 842 of the Income and Corporation Taxes Act 1988, no provision is made for deferred taxation in respect of the capital gains that have been realised, or are expected in the future to be realised, on the sale of fixed asset investments.

6 Reserves

Gains and losses on the realisation of investments and foreign currency are accounted for in the realised capital reserve. Increases and decreases in the valuation of investments held at the year end are accounted for in the unrealised capital reserve.

7 Pension Costs

Employer contributions to pension arrangements for staff are charged against revenue.

Contributions in respect of defined benefit provision are calculated by reference to actuarial valuations carried out for the Trustees at intervals of not more than three years, and represent a charge to cover the accruing liabilities on a continuing basis.

Consolidated Statement of Total Return

£000	Notes	2005 Revenue	2005 Capital	2005 Total	2004 Revenue	2004 Capital	2004 Total
Income							
UK franked dividends		27,740	-	27,740	28,771	-	28,771
UK interest		1,236	-	1,236	1,442	-	1,442
Overseas dividends		16,083	-	16,083	14,227	-	14,227
Mineral rights income		814	-	814	724	-	724
Investment Income	1	45,873	-	45,873	45,164	-	45,164
Deposit interest		6,635	-	6,635	3,896	-	3,896
Savings and pension plans charges		2,275	-	2,275	1,899	-	1,899
Miscellaneous		169	-	169	91	-	91
Other Income		9,079	-	9,079	5,886	-	5,886
Total Income		54,952	-	54,952	51,050	-	51,050
Total expenses	2	(9,669)	-	(9,669)	(7,297)	-	(7,297)
Realised gains(losses) on investments	7	-	71,849	71,849	-	(2,915)	(2,915)
Increase in unrealised appreciation	7	-	74,666	74,666	-	268,118	268,118
Surplus on revaluation of office premises		-	-	-	-	50	50
Foreign exchange gains		-	378	378	-	2,427	2,427
Net Return Before Interest Payable and Taxation		45,283	146,893	192,176	43,753	267,680	311,433
Interest payable	3	(1,604)	-	(1,604)	(1,152)	-	(1,152)
Return Before Taxation		43,679	146,893	190,572	42,601	267,680	310,281
Taxation	4	(4,759)	(601)	(5,360)	(4,103)	-	(4,103)
Return After Taxation		38,920	146,292	185,212	38,498	267,680	306,178
Minority interest - equity		(259)	(23)	(282)	(260)	73	(187)
		38,661	146,269	184,930	38,238	267,753	305,991
Dividends on preference stock - non-equity	5	(97)	-	(97)	(97)	-	(97)
Return Attributable to Equity Stockholders		38,564	146,269	184,833	38,141	267,753	305,894
Dividend on ordinary stock - equity	5	(36,162)	-	(36,162)	(35,532)	-	(35,532)
Transfer to reserves		2,402	146,269	148,671	2,609	267,753	270,362

	Notes	Earnings	Capital	Total	Earnings	Capital	Total
Return per Ordinary Stock Unit	6	76.52p	290.21p	366.73p	75.68p	531.26p	606.94p

Company Statement of Total Return

£000	Notes	2005 Revenue	2005 Capital	2005 Total	2004 Revenue	2004 Capital	2004 Total
Income							
UK franked dividends		27,740	-	27,740	28,771	-	28,771
Franked dividends from subsidiary company		-	-	-	638	-	638
		27,740	-	27,740	29,409	-	29,409
UK interest		375	-	375	525	-	525
Overseas dividends		16,083	-	16,083	14,227	-	14,227
Mineral rights income		814	-	814	724	-	724
Investment Income	1	45,012	-	45,012	44,885	-	44,885
Deposit interest		2,632	-	2,632	1,232	-	1,232
Miscellaneous		11	-	11	25	-	25
Other Income		2,643	-	2,643	1,257	-	1,257
Total Income		47,655	-	47,655	46,142	-	46,142
Total expenses	2	(5,358)	-	(5,358)	(4,301)	-	(4,301)
Realised gains(losses) on investments	7	-	71,849	71,849	-	(2,915)	(2,915)
Increase in unrealised appreciation	7	-	75,419	75,419	-	268,333	268,333
Surplus on revaluation of office premises		-	-	-	-	50	50
Foreign exchange gains		-	378	378	-	2,427	2,427
Net Return before Interest Payable and Taxation		42,297	147,646	189,943	41,841	267,895	309,736
Interest payable	3	(77)	-	(77)	(76)	-	(76)
Return before Taxation		42,220	147,646	189,866	41,765	267,895	309,660
Taxation	4	(4,335)	(601)	(4,936)	(3,669)	-	(3,669)
Return after Taxation		37,885	147,045	184,930	38,096	267,895	305,991
Dividends on preference stock – non-equity	5	(97)	-	(97)	(97)	-	(97)
Return Attributable to Equity Stockholders		37,788	147,045	184,833	37,999	267,895	305,894
Dividends on ordinary stock – equity	5	(36,162)	-	(36,162)	(35,532)	-	(35,532)
Transfer to reserves		1,626	147,045	148,671	2,467	267,895	270,362

	Notes	Earnings	Capital	Total	Earnings	Capital	Total
Return per Ordinary Stock Unit	6	74.98p	291.75p	366.73p	75.40p	531.54p	606.94p

Balance Sheets

£000	Notes	Group 2005	Group 2004	Company 2005	Company 2004
Fixed Assets	7				
Office premises		**700**	700	**700**	700
Investments		**1,591,536**	1,466,143	**1,604,513**	1,475,418
		1,592,236	1,466,843	**1,605,213**	1,476,118
Current Assets					
Debtors	9	**8,201**	13,533	**6,442**	7,085
Bank deposits		**140,212**	101,221	**39,747**	25,479
Cash at bank and in hand		**1,626**	1,607	**3**	460
		150,039	116,361	**46,192**	33,024
Creditors: amounts falling due within one year	10	**(109,151)**	(97,385)	**(28,111)**	(32,871)
Net Current Assets		**40,888**	18,976	**18,081**	153
Total Assets less Current Liabilities		**1,633,124**	1,485,819	**1,623,294**	1,476,271
Creditors: amount falling due after more than one year					
4½% debenture stock 1956 or after					
- repayable at the Company's option only		**-**	1,648	**-**	1,648
Minority Interest - Equity		**9,830**	9,548	**-**	-
		9,830	11,196	**-**	1,648
Capital and Reserves					
Called-up share capital	5	**14,800**	14,800	**14,800**	14,800
Capital reserve - realised	11	**1,066,922**	995,296	**1,065,623**	993,997
Capital reserve - unrealised	11	**493,481**	418,838	**509,961**	434,542
Revenue reserve	11	**48,091**	45,689	**32,910**	31,284
Total Stockholders' Funds		**1,623,294**	1,474,623	**1,623,294**	1,474,623
		1,633,124	1,485,819	**1,623,294**	1,476,271
Total Stockholders' Funds are attributable to:					
Equity stockholders	12	**1,621,094**	1,472,423	**1,621,094**	1,472,423
Non-equity stockholders	12	**2,200**	2,200	**2,200**	2,200
		1,623,294	1,474,623	**1,623,294**	1,474,623
Net Asset Value per Ordinary Stock Unit	6	**£32.16**	£29.21	**£32.16**	£29.21

The financial statements on pages 43 to 53 were approved by the board on 21 March 2005 and were signed on its behalf by:

Lesley Knox
Lesley Knox
Director

Alan J Harden
Director

Cash Flow Statements

£000	Notes	Group 2005	Group 2004	Company 2005	Company 2004
Operating Activities					
Investment income received		**45,921**	46,382	**45,060**	44,273
Interest received		**6,692**	3,345	**2,333**	1,552
Underwriting commission received		**11**	25	**11**	25
Savings and pension plans charges		**2,275**	1,899	**-**	-
Miscellaneous income received		**169**	55	**-**	-
Movement in loans and advances		**4,000**	-	**-**	-
Net amounts received from depositors		**5,285**	9,023	**-**	-
Expenses		**(9,208)**	(6,960)	**(4,936)**	(3,960)
Net Cash Inflow from Operating Activities	13	**55,145**	53,769	**42,468**	41,890
Dividends from Subsidiary Company		**-**	-	**-**	638
Servicing of Finance					
Interest paid		**(1,604)**	(1,152)	**(77)**	(76)
Dividends paid on preference stocks		**(97)**	(97)	**(97)**	(97)
Dividends paid to minority interests		**-**	(213)	**-**	-
Net Cash Outflow from Servicing of Finance		**(1,701)**	(1,462)	**(174)**	(173)
Taxation Paid		**(4,873)**	(3,827)	**(4,382)**	(3,492)
Investing Activities					
Purchase of investments		**(301,140)**	(178,067)	**(297,680)**	(173,515)
Disposal of investments		**326,985**	127,957	**320,985**	121,806
Net Cash Inflow(Outflow) from Investing Activities		**25,845**	(50,110)	**23,305**	(51,709)
Equity Dividends Paid		**(35,784)**	(38,052)	**(35,784)**	(38,052)
Net Cash Inflow(Outflow) before Management of Liquid Resources and Financing		**38,632**	(39,682)	**25,433**	(50,898)
Management of Liquid Resources and Financing					
Cash (placed on)uplifted from short-term deposits	15	**(38,613)**	38,120	**(13,890)**	50,855
Financing - Repayment of ATF loan		**-**	-	**(12,000)**	-
Net Cash (Outflow)Inflow from Management of Liquid Resources and Financing		**(38,613)**	38,120	**(25,890)**	50,855
Increase(Decrease) in Cash	14	**19**	(1,562)	**(457)**	(43)

Notes to the Financial Statements

1 Investment income £000

	Group 2005	Group 2004	Company 2005	Company 2004
Listed UK	**28,955**	30,208	**28,094**	29,292
Unlisted UK	**21**	5	**21**	642
Listed overseas	**16,074**	14,227	**16,074**	14,227
Unlisted overseas	**823**	724	**823**	724
	45,873	45,164	**45,012**	44,885

The above excludes special dividends of a capital nature amounting to £2,326,000 (nil), which have been taken to reduce the cost of the investments. Of this sum, £2,006,000 (nil) is subject to UK Corporation Tax.

2 Expenses £000

	Group 2005	Group 2004	Company 2005	Company 2004
Revenue Expenses				
Directors' remuneration	**681**	576	**681**	576
Staff costs	***3,661***	*3,134*	***1,813***	*1,641*
Social security costs	**405**	310	**236**	185
Regular pension contributions	**806**	789	**415**	416
Remuneration of auditor for audit	**25**	32	**14**	17
Remuneration of auditor for regulatory reports on behalf of Alliance Trust Savings Limited	**4**	4	**-**	-
Other	**4,087**	2,452	**2,199**	1,466
	9,669	7,297	**5,358**	4,301

Details of directors' remuneration are given on pages 38 to 41. At 31 January 2005,The Group employed 135 (109) full time and 19 (22) part time staff, excluding directors. Staff costs are shared with The Second Alliance Trust PLC ("the Second Alliance Trust"). Included in staff costs is the sum of £42,984 (£13,000) representing payments to Gavin Suggett, a former director, in respect of salary from the period when he retired as a director.

The management and administration expenses of the Company amounted to £5,358,000 (£4,301,000) representing 0.33% (0.29%) of the year end attributable net asset value of £1,621,094,000 (£1,472,423,000). The cost of insured benefits for staff including executive directors is included in other expenses.

3 Interest payable £000

	Group 2005	Group 2004	Company 2005	Company 2004
On deposits and overdrafts repayable within 5 years not by instalments	**1,530**	1,078	**3**	2
On debentures repayable on 15 May 2005	**74**	-	**74**	-
On debentures wholly or partly repayable in more than 5 years	**-**	74	**-**	74
	1,604	1,152	**77**	76

4 Taxation £000

	2005 Revenue	2005 Capital	2005 Total	2004 Revenue	2004 Capital	2004 Total
Group						
UK corporation tax at 30%	**4,763**	**601**	**5,364**	4,216	-	4,216
Overseas taxation	**1,611**	**301**	**1,912**	1,743	-	1,743
	6,374	**902**	**7,276**	5,959	-	5,959
Relief for overseas taxation	**(1,611)**	**(301)**	**(1,912)**	(1,743)	-	(1,743)
	4,763	**601**	**5,364**	4,216	-	4,216
Deferred taxation	**(4)**	**-**	**(4)**	(3)	-	(3)
Recovery of French company tax (Avoir Fiscal)	**-**	**-**	**-**	(110)	-	(110)
	4,759	**601**	**5,360**	4,103	-	4,103
Reconciliation of Tax Charge £000						
Return on ordinary activities before taxation	***43,679***	***146,893***	***190,572***	*42,601*	*267,680*	*310,281*
UK corporation tax payable at 30%	**13,104**	**44,068**	**57,172**	12,780	80,304	93,084
Items not subject to corporation tax						
Franked investment income	**(8,322)**	**-**	**(8,322)**	(8,555)	-	(8,555)
Realised (gains)losses on investments	**-**	**(20,954)**	**(20,954)**	-	874	874
Increase in unrealised appreciation	**-**	**(22,400)**	**(22,400)**	-	(80,435)	(80,435)
Surplus on revaluation of office premises	**-**	**-**	**-**	-	(15)	(15)
Foreign exchange gains	**-**	**(113)**	**(113)**	-	(728)	(728)
Adjustments arising on the difference between taxation and accounting treatment of income and expenses	**(19)**	**-**	**(19)**	(9)	-	(9)
	4,763	**601**	**5,364**	4,216	-	4,216

4 Taxation £000 (continued)

	2005 Revenue	2005 Capital	2005 Total	2004 Revenue	2004 Capital	2004 Total
Company						
UK corporation tax at 30%	4,341	601	4,942	3,780	-	3,780
Overseas taxation	1,611	301	1,912	1,743	-	1,743
	5,952	902	6,854	5,523	-	5,523
Relief for overseas taxation	(1,611)	(301)	(1,912)	(1,743)	-	(1,743)
	4,341	601	4,942	3,780	-	3,780
Deferred taxation	(6)	-	(6)	(1)	-	(1)
Recovery of French company tax (Avoir Fiscal)	-	-	-	(110)	-	(110)
	4,335	601	4,936	3,669	-	3,669

Reconciliation of Tax Charge £000

	2005 Revenue	2005 Capital	2005 Total	2004 Revenue	2004 Capital	2004 Total
Return on ordinary activities before taxation	42,220	147,646	189,866	41,765	267,895	309,660
UK corporation tax payable at 30%	12,666	44,294	56,960	12,529	80,369	92,898
Items not subject to corporation tax						
Franked investment income	(8,322)	-	(8,322)	(8,746)	-	(8,746)
Realised (gains)losses on investments	-	(20,954)	(20,954)	-	874	874
Increase in unrealised appreciation	-	(22,626)	(22,626)	-	(80,500)	(80,500)
Surplus on revaluation of office premises	-	-	-	-	(15)	(15)
Foreign exchange gains	-	(113)	(113)	-	(728)	(728)
Adjustments arising on the difference between taxation	-	-	-	-	-	-
and accounting treatment of income and expenses	(3)	-	(3)	(3)	-	(3)
	4,341	601	4,942	3,780	-	3,780

5 Called up share capital and dividends £000

The authorised share capital of the Company, which has all been allotted and fully paid, is divided into four classes of preference stock and one class of ordinary stock. The capital is shown below, together with the respective dividends

	Total Capital 2005	Total Capital 2004	Dividends 2005	Dividends 2004
Non-equity stock				
Preference stocks				
4¹/₄% cumulative preference stock	700	700	30	30
4% cumulative preference stock	650	650	26	26
5% cumulative preference stock	750	750	37	37
4% 'A' cumulative preference stock	100	100	4	4
	2,200	2,200	97	97
Equity stock units				
Ordinary stock				
50,400,000 units of 25p each	12,600	12,600		
Interim dividend paid of 35.5p (35.0p) per stock unit			17,892	17,640
Proposed final dividend of 36.25p (35.5p) per stock unit			18,270	17,892
Total dividend 71.75p (70.5p) per stock unit			36,162	35,532
	14,800	14,800		

Provision has been made in these financial statements for the payment of the final dividend on the ordinary stock and the dividends on the Company's preference stocks.

The Company has proposed the repayment of its preference stocks to stockholders at the 2005 AGM.

6 Return and net asset value per ordinary stock unit £000

	Group 2005	Group 2004	Company 2005	Company 2004
Earnings	38,564	38,141	37,788	37,999
Capital	146,269	267,753	147,045	267,895
Total return	184,833	305,894	184,833	305,894
Equity stockholders' funds	1,621,094	1,472,423	1,621,094	1,472,423

The return per ordinary stock unit is arrived at by dividing the total return by 50,400,000 (the total number of stock units in issue).

The net asset value per ordinary stock unit is arrived at by dividing the equity stockholders' funds by the same figure.

Notes to the Financial Statements

7 Fixed assets £000

	Group 2005	Group 2004	**Company 2005**	Company 2004
Office Premises Freehold/Heritable Property				
Opening valuation	**700**	650	**700**	650
Surplus on revaluation	**-**	50	**-**	50
	700	700	**700**	700

J & E Shepherd, Chartered Surveyors, valued the office premises at 31 January 2004, at £700,000 on the basis of existing use value and at £450,000 on the basis of market value. Both valuations were in accordance with RICS Appraisal and Valuation Standards. The historic cost of the office premises is £292,000. Existing use value assumes that demand existed for the premises for continuation of office use. However, at the date of valuation, J & E Shepherd were of the opinion that such demand did not exist. As such, the market value was materially different.

	Group 2005	Group 2004	**Company 2005**	Company 2004
Investments				
Investments listed on a recognised investment exchange	**1,585,320**	1,463,070	**1,568,806**	1,443,700
Unlisted investments	**6,216**	3,073	**6,216**	3,073
Subsidiary companies (note 8)	**-**	-	**29,491**	28,645
	1,591,536	1,466,143	**1,604,513**	1,475,418

	Group	**Company**		
	investments	investments	subsidiaries	total
Opening book cost as at 1 February 2004	*1,047,699*	*1,028,385*	*12,900*	*1,041,285*
Opening unrealised appreciation	418,444	418,388	15,745	434,133
Opening valuation	1,466,143	1,446,773	28,645	1,475,418
Movements in the year				
Bond premium amortisation	(417)	(8)	-	(8)
Purchases at cost*	305,335	301,875	-	301,875
Sales - proceeds*	(326,040)	(320,040)	-	(320,040)
- realised gains on sales	71,849	71,849	-	71,849
Increase(decrease) in unrealised appreciation	74,666	74,573	846	75,419
Closing valuation	1,591,536	1,575,022	29,491	1,604,513
Closing book cost	1,098,426	1,082,061	12,900	1,094,961
Closing unrealised appreciation	493,110	492,961	16,591	509,552
Closing valuation as at 31 January 2005	1,591,536	1,575,022	29,491	1,604,513

* In accordance with Statement of Recommended Practice "Financial Statements of Investment Trust Companies", expenses incidental to the purchase or sale of investments are included within the purchase cost or deducted from the sale proceeds. These expenses include commission costs of £1,660,000 (£872,000).

A geographical analysis of the investment portfolio by broad industrial or commercial sector is given on page 21. A list of the twenty largest investments in the portfolio is given on page 15.

8 Subsidiary companies

The following subsidiary companies, whose results are consolidated in the Group accounts, are incorporated in Scotland and operate in the United Kingdom.

Name	**Shares held**	**Principal Activity**
Alliance Trust Savings Limited ("ATS")	Ordinary	Deposit taking, provision and administration of investment and pension products
Alliance Trust (Finance) Limited ("ATF")	Ordinary	Asset holding
Alliance Trust Leasing Limited ("ATL")	Ordinary	Formerly leasing administration (as principal and agent), *now inactive*

The Company owns 75% of ATS and ATF with the remaining 25% of each owned by the Second Alliance Trust. ATF owns 100% of ATL. The investment in subsidiary companies is valued in the Company's accounts at £29,491,000 (£28,645,000) being the net asset value of the Company's equity interests taking into account securities at market or *directors' valuation.*

A summarised statement of the balance sheets of the subsidiaries is shown on the next page. The reports and accounts of all subsidiary companies are delivered to the Registrar of Companies in Edinburgh.

ATF and ATL have ceased leasing administration as agent and ATL has ceased lease administration as principal.

8 Subsidiary companies (continued)

Summarised balance sheets £000

	ATS 2005	ATS 2004	ATF Group 2005	ATF Group 2004
Investments	**13,844**	13,595	**2,598**	5,720
Money at call and short notice	**80,174**	76,926	**22,382**	2,577
Loans to parent companies	**-**	-	**-**	16,000
	94,018	90,521	**24,980**	24,297
Financed by:				
Amounts due to depositors	**79,199**	74,346	**-**	-
Creditors less debtors	**376**	2,167	**175**	166
	79,575	76,513	**175**	166
Shareholder funds	**14,443**	14,008	**24,805**	24,131
	94,018	90,521	**24,980**	24,297

9 Debtors £000

	Group 2005	Group 2004	Company 2005	Company 2004
Sales for subsequent settlement	**4,044**	4,989	**4,044**	4,989
Loan to The Second Alliance Trust PLC (Note 17)	**-**	4,000	**-**	-
Taxation recoverable	**254**	231	**254**	231
Deferred taxation	**55**	51	**25**	19
Prepayments and accrued income	**3,323**	3,010	**2,091**	1,832
Amount due from subsidiary company	**-**	-	**19**	-
Other debtors	**525**	1,252	**9**	14
	8,201	13,533	**6,442**	7,085

10 Creditors: amounts falling due within one year £000

	Group 2005	Group 2004	Company 2005	Company 2004
Amounts due to depositors	**78,739**	71,763	**-**	-
Debenture stock (due to be repaid 15 May 2005)	**1,648**	-	**1,648**	-
Purchase for subsequent settlement	**5,515**	1,320	**5,515**	1,320
UK corporation tax payable	**1,737**	1,223	**1,495**	935
Loan from ATF (Note 17)	**-**	-	**-**	12,000
Proposed dividends	**18,319**	17,941	**18,319**	17,941
Amount due to subsidiary company	**-**	-	**42**	-
Other creditors	**3,193**	5,138	**1,092**	675
	109,151	97,385	**28,111**	32,871

11 Reserves £000

	Group reserves			*Company reserves*		
	capital realised	capital unrealised	revenue	capital realised	capital unrealised	revenue
Beginning of year	*995,296*	*418,838*	*45,689*	*993,997*	*434,542*	*31,284*
Exchange differences	378	-	-	378	-	-
Net gain on realisation of investments	71,849	-	-	71,849	-	-
Increase in unrealised appreciation	-	*74,666*	-	-	*75,419*	-
Taxation	(601)			(601)	-	-
Minority interest - capital	-	(23)	-	-	-	-
Retained net revenue for the year	-	-	*2,402*	-	-	*1,626*
End of year	1,066,922	493,481	48,091	1,065,623	509,961	32,910

12 Reconciliation of movements in stockholders' funds £000

	Group 2005	Group 2004	Company 2005	Company 2004
Opening equity stockholders' funds	**1,472,423**	1,202,061	**1,472,423**	1,202,061
Total recognised gains and losses after dividend	**148,671**	270,362	**148,671**	270,362
Closing equity stockholders' funds	**1,621,094**	*1,472,423*	**1,621,094**	*1,472,423*
Non-equity stockholders' funds	**2,200**	2,200	**2,200**	2,200

There was no movement in non-equity stockholders' funds during the year.

Notes to the Financial Statements

13 Reconciliation of net revenue before interest and tax to net cash inflow from operating activities £000

	Group 2005	Group 2004	Company 2005	Company 2004
Net revenue before interest payable and taxation	**45,283**	43,753	**42,297**	41,841
Dividend from subsidiary company	**-**	-	**-**	*(638)*
Amortisation – non-cash adjustment	**417**	593	**8**	8
Movement in advances and loans	**4,000**	-	**-**	-
(Increase)decrease in accrued income	***(313)***	*63*	***(259)***	*338*
(Decrease)increase in other creditors	**(1,945)**	3,822	**417**	341
Decrease(increase) in other debtors	**727**	(646)	**5**	-
Increase in amounts due to depositors	***6,976***	*6,184*	**-**	-
Net cash inflow from operating activities	**55,145**	53,769	**42,468**	41,890

14 Reconciliation of net cash flow to movement in net funds £000

	Group 2005	Group 2004	Company 2005	Company 2004
Increase(decrease) in cash in the year	**19**	(1,562)	**(457)**	(43)
Cash placed on(uplifted) from short-term deposits	**38,613**	(38,120)	**13,890**	(50,855)
Foreign exchange gains	**378**	2,427	**378**	2,427
Repayment of ATF loan	**-**	-	**12,000**	-
Movement in net funds in year	**39,010**	(37,255)	**25,811**	(48,471)
Net funds at start of year	**101,180**	138,435	**12,291**	60,762
Net funds at end of year (Note 15)	**140,190**	101,180	**38,102**	12,291

15 Analysis of change in net funds £000

		2004	Cash flow	Exchange gains	2005
Group	Cash at bank and in hand	1,607	19	-	**1,626**
	Bank deposits	101,221	38,613	378	**140,212**
	Debenture stock	(1,648)	-	-	**(1,648)**
		101,180	38,632	378	**140,190**
Company	Cash at bank and in hand	460	(457)	-	**3**
	Bank deposits	25,479	13,890	378	**39,747**
	Debenture stock	(1,648)	-	-	**(1,648)**
	Loan from ATF	(12,000)	12,000	-	**-**
		12,291	25,433	378	**38,102**

16 Financial instruments

The directors' report details the Company's approach to investment risk management on page 36 and the accounting policies on page 43 explain the basis on which currencies and investments are valued for accounting purposes.

All assets and liabilities are carried at fair value with the exception of the company's debenture and preference stocks.

No derivatives were used and no significant short-term borrowings were drawn down during the year to 31 January 2005. The Company had in issue throughout the year £3,848,000 (£3,848,000) of fixed rate debenture stock and preference stocks which have no fixed maturity or redemption dates. Based on the latest market transactions, the assessment of their value at 31 January 2005 was £3,291,000 (£2,925,000), a discount to book value of the equivalent of 1.1p (1.8p) per ordinary stock unit.

The Company has given notice that it will repay its £1,648,000 of debenture stock at par on 15 May 2005.

The Company has proposed the repayment of its preference stocks to stockholders at the 2005 AGM.

Currency exposure £000

Currency	Overseas investments 2005	Net monetary assets 2005	Total currency exposure 2005	Overseas investments 2004	Net monetary assets 2004	Total currency exposure 2004
US dollar	**288,293**	**2,708**	**291,001**	302,492	2,697	305,189
Euro	**131,173**	**9,661**	**140,834**	120,782	566	121,348
Yen	**80,805**	**1,047**	**81,852**	62,545	2,146	64,691
Other non-sterling	**214,012**	**-**	**214,012**	185,954	-	185,954
	714,283	**13,416**	**727,699**	671,773	5,409	677,182

A portion of the financial assets and financial liabilities of the Company are denominated in currencies other than sterling with the effect that the net assets and total return can be significantly affected by currency movements.

17 Related parties

The affairs of the Group are managed in conjunction with those of the Second Alliance Trust and its subsidiary company Second Alliance Leasing ("SAL"). Although the parent companies are not controlled by common stockholders, the composition of the board of each company is currently the same and for the purposes of Financial Reporting Standard 8 the companies are regarded as related parties, requiring disclosure of material, mutual transactions.

The Groups operate from the same office in Dundee, employ staff jointly and share the cost of common services. The basis of allocation is 75% for the Company and 25% for the Second Alliance Trust after allowing for a contribution from ATS and reflects the respective sizes of the companies. During the year to 31 January 2005 the Second Alliance Trust paid a contribution of £1,103,000 (£757,000).

The minority interest shareholding in ATS and ATF is held by the Second Alliance Trust. Interest free loans of £12,000,000 and £4,000,000, advanced by ATF to the Company and to the Second Alliance Trust respectively, were repaid on 28 July 2004.

SAL has a deposit facility with ATS, the balance at 31 January 2005 being £311,000 (£300,000) due to SAL.

18 Financial commitments

Financial commitments of the Company as at 31 January 2005, which have not been accrued, amounted to £5,289,352 (£5,166,611) in respect of uncalled subscriptions in investments structured as limited liability partnerships.

19 Pension Scheme

The Group, in conjunction with the Second Alliance Trust, operates an insured defined benefit pension scheme ("the Scheme") providing benefits based on final pensionable salary. The Scheme's assets, which are invested to finance members' pensions on retirement, are held separately from the Group's funds. The Scheme is administered externally on behalf of the Trustees.

The Scheme is available to qualifying employees who have completed 6 months service as at 1 March 2005 and 16 individuals with whom contractual employment arrangements to provide defined benefit pension benefits were in place at that date. Anyone offered employment since 1 March 2005 will be entitled to defined contribution pension benefits after 6 months service.

The Scheme funding rate is determined, at intervals not exceeding 3 years, on the recommendation of a qualified independent actuary. The latest full actuarial valuation report was carried out as at 1 April 2003. The report was produced using the projected unit method of valuation. It showed assets valued on a discounted income basis at £10,899,000 and a surplus of £721,000 over present value liabilities at the report date.

The principal assumptions used in this valuation were:

• Rate of increase in salaries p.a.	5%
• Rate of increase of pensions in payment p.a.	3%
• Rate of increase of deferred pensions p.a.	3%
• Rate of interest p.a.	7%
• Rate of dividend growth p.a.	3.5%
• Inflation assumption p.a.	3%

Following the recommendation of the actuary, the Group and the Second Alliance Trust have adopted a funding rate of 22.1% of pensionable salaries from 1 April 2004 (23.1% was paid in the previous triennium and an additional contribution of £641,000 was made by the Group in the year to 31 January 2003). This contribution rate is due to be reviewed following the next triennial valuation of the Scheme as at 1 April 2006 and excludes administration fees and insurance premiums for death-in-service benefits, which the companies pay separately and which total a further 1% (2%) of pensionable salaries. The total pension cost (including administration fees and the cost of insurance of death-in-service benefits) to the Group was £806,000(£814,000). The cost to the Company was £415,000(£429,000).

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs', under Financial Reporting Standard 17 'Retirement Benefits' ("FRS17") the following transitional disclosures are required as at 31 January 2005 using the different measurement basis prescribed by the Standard. In order to meet these requirements, a separate valuation of the Scheme's present assets and liabilities has been undertaken by the actuary as at 31 January 2005. The assumptions used by the actuary, which meet the requirements of FRS17, were:

• Rate of increase in salaries p.a.	4.0%
• Rate of increase of pensions in payment p.a.	3.0%
• Revaluation rate for deferred pensions p.a.	3.0%
• Rate used to discount scheme liabilities p.a.	5.25%
• Inflation assumption p.a.	3.0%

On these assumptions, the fair value of the Scheme's assets, and the value of the Scheme's liabilities at 31 January 2005 were:
Assets: £15,265m, Liabilities: £15,652m, Deficit £387m.
The Scheme's assets are not intended to be realised in the short-term and their value may be subject to significant change before they are realised. The liabilities are derived from cash flow projections over long periods and are also subject to uncertainty.

At 31 January 2005, 50.4% of the assets of the Scheme were held in equities, 46.3% in bonds, nil in property and 3.3% in current assets.

For the purposes of these financial statements these figures are illustrative only and do not impact on the consolidated balance sheet at 31 January 2005.

The assumed long-term rate of return over the following year is 5.25% for bonds, 7.00% for equities and property and 4.75% for cash.

Group

The costs of the Scheme are shared by the Group and by the Second Alliance Trust based on the allocation of employees' costs and it is assumed any deficit would also be shared on a similar basis.

Company

Within the Group, the costs of the Scheme are shared on the basis of the work done by individual members of staff on a day to day basis. The Company pays a proportion of the employers' total contribution, based on the Company's share of staff cost allocation for the year. The Scheme assets are not identified to individuals or to the time periods in respect of which the original contributions were made. Scheme liabilities are identifiable but not to individual participating employers. Consequently, in the terms required by FRS17, the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Accordingly, the Company accounts for its participation in the Scheme as if the Scheme were a defined contribution scheme.

Information for Stockholders

Incorporation

The Alliance Trust PLC is incorporated in Scotland with the registered number 1731.

General Enquiries

If you have an enquiry about the Company please contact the Company Secretary at our registered office:

Meadow House, 64 Reform Street, Dundee DD1 1TJ
tel: 01382 201700 fax: 01382 225133
email: contact@alliancetrusts.com

For security and compliance monitoring purposes telephone calls may be recorded.

Change of address notifications and registration enquiries for stockholdings registered in your own name should be sent to the Company's registrars, who should also be contacted if you would like dividends on stock registered in your own name to be sent to your bank or building society account. Our registrars are:

Computershare Investor Services plc
Lochside House, 7 Lochside Avenue, Edinburgh Park
Edinburgh EH12 9DJ
tel: 0870 702 0000

You may check your holdings and view other information about Alliance Trust stock registered in your own name at www.computershare.com.

Information

Our website www.alliancetrusts.com contains information about the Company, including daily price, net asset value and discount information. The Corporate Governance section of the website contains the terms of reference of the Audit, Remuneration and Nomination Committees. These are also available, on request, from the Company Secretary from whom the terms of appointment of the non-executive directors are also available.

Confidentiality

We are unable to prevent other parties using the Company's register for marketing or other purposes. If you wish to limit unsolicited mail, you may contact the Mailing Preference Service at DMA House, 70 Margaret Street, London W1W 8SS.

Data Protection

The Company is a data controller as defined under the Data Protection Act 1998. Information received from or about stockholders or investors (for example from a stockbroker), whether by telephone or in writing, by fax or by any other electronic or digital means of communication may be processed.

Information held on the Company's Register of Members is, by law, public information and the Company cannot prevent any person inspecting it or having copies of it, on payment of the statutory fee.

Electronic Communications

If you hold your stock in your own name we are able to send you annual reports and notices of meetings electronically instead of in paper format. If you wish to register for this service please log on to www.alliancetrusts.com/ec.htm

Taxation

If you are any doubt about your liability to tax arising from a stockholding in the Company, you should seek professional advice.

Income Tax

Dividends paid by the Company carry a tax credit at 10% of the gross dividend. Dividends are paid net of the tax credit.

If you hold your stock in your own name, the tax voucher which you need for your tax records will be sent to the address we have for you on the register maintained by Computershare.

If your dividends are received by a nominee, such as your stockbroker's nominee, you must contact that person for the tax voucher. Alliance Trust Savings will automatically supply you with a consolidated income tax voucher for income received for you in the Select Investment Plan.

Capital Gains Tax

For investors who purchased their stock prior to 31 March 1982, the cost of the stock for capital gains tax purposes may be based on the price of the stock on that date, being £2.85 per ordinary stock unit.

Risks

On page 3 we provide information on how we manage the risks in the portfolio. If you hold stock in the Company, you should take professional advice as to whether an investment in our stock is suitable for you. You should be aware that:

- Investment should be made for the long term.
- The price of stock will be affected by supply and demand for it on the London Stock Exchange and may not fully represent the underlying value of the assets of the Company. The price generally stands below the net asset value of the Trust ("at a discount") but it may also stand above it ("at a premium"). Your capital return will depend upon the movement of the discount/premium over the period you own the stock, as well as the capital performance of the Company's own assets.
- The assets owned by the Company may have exposure to currencies other than Sterling. Changes in market movements and in rates of exchange may cause the value of your investment to go up or down.
- Past performance is not necessarily a guide to the future. What you get back will depend on investment performance. You may not get back the amount you invest.

Table of Indices (sterling adjusted)

to 31 January 2005

	1 year absolute	10 years absolute	10 years compound
FTSE All-Share Index	11.6%	64.9%	5.1%
FTSE World Index	5.4%	58.3%	4.7%
MSCI World Index	4.8%	58.1%	4.7%
FTSE World ex UK	4.8%	57.7%	4.7%
US Standard & Poor's 500 Index	0.8%	111.4%	7.8%
NASDAQ Composite	(3.7%)	129.9%	8.7%
Wilshire 5000 Total Market Index	1.9%	111.6%	7.8%
FTSE World Europe ex UK	9.6%	96.8%	7.0%
FTSE Asia Pacific ex Japan	11.3%	5.2%	0.5%
Tokyo Topix Index	7.9%	(37.0%)	(4.5%)
Hang Seng Index	(0.7%)	56.0%	4.5%
UK Investment Property Databank	11.7%	38.9%	3.3%
Retail Price Index	3.2%	29.4%	2.6%
Consumer Price Index	1.6%	16.7%	1.6%

Appreciation/(Depreciation) of Sterling against Major Currencies

to 31 January 2005

	1 year absolute	10 years absolute
Appreciation of £ against US$	3.6%	18.8%
Appreciation of £ against Japanese yen	1.3%	24.2%
Appreciation of £ against euro*	(1.2%)	13.6%

* Appreciation of £ against ECU up to Jan 1999

Source: Thomson Financial Datastream

Information for Stockholders

Key Dates

Annual General Meeting

The 117th Annual General Meeting of the Company will be held at 10.30am on Friday 29 April 2005 at Discovery Point, Discovery Quay, Dundee. The notice of the meeting is sent separately to stockholders.

Financial Calendar

		Date
Final Dividend and AGM	**for the year to 31 January 2005**	
	Ex-dividend date	Wednesday 13 April 2005
	Annual General Meeting	Friday 29 April 2005
	Proposed final dividend payment date	Tuesday 3 May 2005
Interim Dividend	**for the year to 31 January 2006**	
	Proposed announcement date	Monday 22 August 2005
	Proposed ex-dividend date	Wednesday 14 September 2005
	Proposed payment date	Friday 30 September 2005

Investor Events

The dates and venues are are follows:

Date	Organised by	Location
Thursday 28 April 2005	AITC	Birmingham Botanical Gardens, Edgbaston
Wednesday 8 June 2005	Alliance Trusts	Bristol Marriott Royal Hotel, Bristol
Wednesday 15 June 2005	AITC	The Old Course Hotel, St Andrews
Wednesday 31 August 2005	Alliance Trusts	Hilton Dunblane Hydro, Dunblane
Thursday 8 September 2005	AITC	Mere Golf & Country Club, Knutsford
Wednesday 9 November 2005	AITC	Brighton Dome, Brighton

If you wish to attend either of the Alliance Trusts Forums, please contact Alison Henderson, Events Manager on 01382 306047 or email events@alliancetrusts.com

Information on further Alliance Trusts Events will be posted on www.alliancetrusts.com

If you wish to attend any of the events organised by the AITC at which we will be exhibiting, you should contact the AITC direct by calling the Events Team on 020 7282 5564 or email eventsteam@aitc.co.uk

Further details of the AITC events can be found at www.aitc.co.uk/event