The Alliance Trust PLC

SC 1731

Report & Accounts 2000

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COMPANIES HOUSE 02/06/00

contents

chairman's statement

This year was one of rapid change with economies and markets behaving unpredictably and with many of the traditional concepts of business and value coming into question in the light of globalisation and technological change. Our job is to find and invest where value grows. This Report details what has been achieved over the last year and assesses the impact of these changes.

Our objective is to provide the core investment for those who wish to build up a long term store of increasing value for the future.

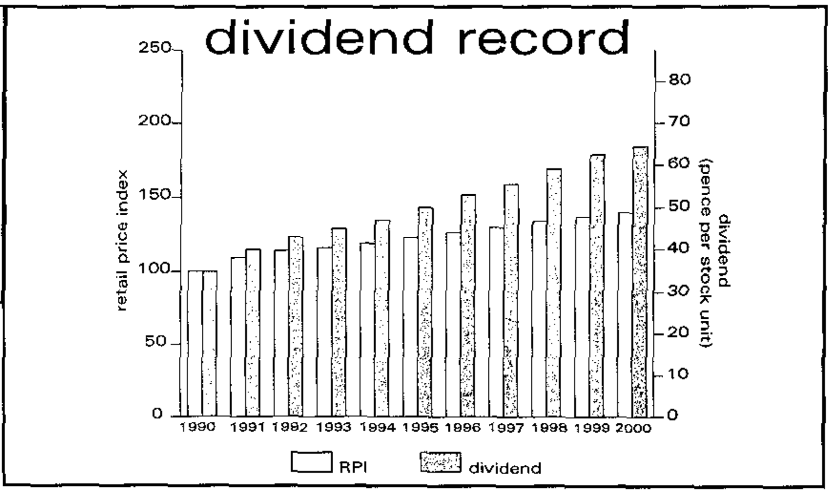
dividend

As indicated in August 1999, the Board is proposing a final dividend of 40.5p per ordinary stock unit payable on 2 May which, taken together with the increased interim dividend paid in October 1999, makes a total of 64.5p for the year, an increase of 3.2%.

results

Combining income and capital growth the total return on assets after tax and expenses was 11.1% for the year and 13.0% pa compound over 10 years. Although our long term performance is in line with the FTSE Actuaries All-Share Index, this year's results are rather disappointing. However, to some extent they reflect short term market factors.

A background of expansion throughout the global economy, a flood of extra money and major structural changes have favoured the extreme ends of the investment spectrum this year and have resulted in relatively dull performance in the middle ground. In this situation, having started the year with 5% cash, no gearing, a small exposure to Japan and a portfolio driven by considerations of long term value and risk containment, our performance relative to more aggressive funds has suffered.



highlights

ordinary stock unit data

		year to 31 January 2000	year to 31 January 1999
Dividends	Interim paid October 1999	24.0p	22.0p
	Second interim paid April 1999	n/a	16.0p
	Final proposed May 2000	40.5p	24.5p
	Total	64.5p	62.5p
Net asset value per ordinary stock unit		£37.39	£34.25
Price per stock unit		£30.52½	£29.36
Discount		18.4%	14.3%
Company total expense ratio (expenses ÷ closing NAV)		0.13%	0.13%

returns

	one year	ten years
Dividend – compound rate of growth pa	3.2%	6.3%
Net asset value – compound rate of growth pa	9.2%	10.6%
Return on Company's assets – pa (nav)[i]	11.1%	13.0%
Return on stockholder's investment (stock price) – pa[i]	6.2%	13.1%
Return on FTSE Actuaries All-Share Index – pa (net)[ii]	12.8%	12.9%
Average annual rate of inflation (RPI)	2.0%	3.4%

Note:

(i) These returns include income and capital gains and are approximately equal to the annual compound growth in net assets/stock price added to the net yield on the portfolio/stock.

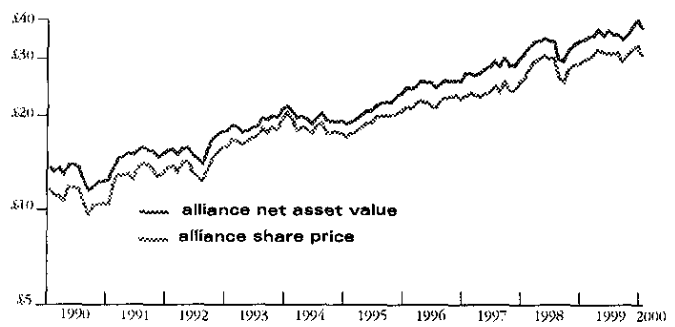
(ii) The return on the FTSE Actuaries All-Share Index is computed on the same basis including net income appropriate to the yield on the index.

portfolio

A reputation for solid and dependable performance is a hard one to live up to in these markets and there is a strong temptation to follow the crowd by taking risks in a narrow range of stocks or at least to go for 'market weightings'.

Faced with this situation we have taken a global view, investing in those companies able to benefit from the new order: infrastructure builders, companies where corporate reorganisation can reap efficiency benefits and businesses which are able to exploit the new technologies without suffering from the negative side of e-commerce - low barriers to entry and unconstrained price competition. This can be achieved without paying what we believe to be unwarranted prices and we are confident that this approach will continue to give good long term, if not spectacular short term, returns.

alliance trust nav and price



Source: Primark Datastream

By concentrating on getting the best value for the Company as a whole, we believe all benefit in the long term.

stock price

We do not usually comment on the price of our stock, accepting that it is determined by the interaction between buyers and sellers. However there has been much discussion of investment trust discounts in the press and 'no comment' would seem inappropriate at present. I note below a summary of our views on three of the current issues.

Buy backs. As a truly independent investment trust we offer a uniquely adaptable investment vehicle which operates exclusively for its stockholders. The organisation works because we are large enough to have access to the people and information necessary to manage the business properly. This has been achieved through organic growth and to reduce the capital could threaten the effectiveness of the business over the longer term. We are not yet convinced that the supposed benefits of buy backs warrant this risk.

Marketing. We have not contributed to the AITC generic marketing campaign, both because it does not fit in with our own approach to market penetration and because, in the Board's view, the uncertain returns from the campaign do not justify the required financial contribution from us, which would almost double our, admittedly low, expense ratio. We prefer to concentrate our efforts on delivering value through the products provided by Alliance Trust Savings, our subsidiary, which has had another successful year of strong growth.

Supply and demand. With over 50,000 stockholders, a well diversified share register and frequent contacts with investors, we have no doubt that there is a very real demand for the core investment which the Alliance Trust provides. The price of our stock is determined by short term factors and, as there is a modest turnover of stock, these factors can lead to price volatility. This can be unnerving for some but for the many thousands buying on a regular basis it may, indeed, be of benefit.

We maintain this stance to preserve equity between all our stockholders. By concentrating on getting the best value for the Company as a whole, we believe all benefit in the long term.

Bruce W M Johnston

the non-executive directors

right to left

BRUCE W M JOHNSTON, CA (61) *
CHAIRMAN
Bruce W M Johnston, a Chartered Accountant, was a partner of Arthur Young (now Ernst & Young) between 1970 and 1986, concentrating on audit and advisory work for companies and private clients. He moved to the commercial sector in 1986 and was executive chairman of City Centre Restaurants Plc, based in London, from 1988 to 1996, combining general management with responsibility for finance and investor relations. He joined the Alliance in 1991 as a non-executive director and was appointed Chairman in 1996. He is also chairman of the Audit Committee. He is a director of other companies, including Mid Wynd International Investment Trust.

ANDREW F THOMSON, MA (57)*
Andrew Thomson is a publisher and, since 1974, has been a director of D C Thomson & Co Ltd, the private newspaper, publishing and media group based in Dundee. He is also a director of other companies. He was appointed a director of the Alliance Trust in 1989 and is chairman of the Remuneration Committee.

WILLIAM BERRY, MA LLB WS (60)*
William Berry is a solicitor and chairman of a leading firm of Edinburgh lawyers, Murray Beith Murray. The firm has an important investment presence in Scotland managing and administering funds for many private clients and trusts. He became a non-executive director of the Alliance Trust in 1994. He is also a director and former chairman of Scottish Life Assurance Company, a director of Fleming Continental European Investment Trust, The Scottish American Investment Company and a number of other companies.

W NELSON ROBERTSON, CBE MA FCII (66) *
Nelson Robertson, during a career at General Accident Fire & Life Assurance Company, became a director in 1984 and Group Chief Executive in 1990. Following his retirement, he became a non-executive director of the Alliance Trust in 1996. He is also a director of Morrisons Construction Group and Edinburgh New Tiger Trust.

*Member of Audit and Remuneration Committees
All the directors are also on the Board of Alliance Trust Savings Ltd and The Second Alliance Trust PLC

company record
years to 31 january

	total assets less current liabilities £m	total income* £m	net revenue available for ordinary stockholders £m	ordinary stock earnings Pence per Stock Unit	ordinary stock dividend (net) Pence per Stock Unit	net asset value £ per Stock Unit
1990	693.5	22.8	18.0	35.74	35.00	13.68
1991	628.6	26.0	20.5	40.66	40.00	12.39
1992	779.6	27.8	21.9	43.50	43.00	15.39
1993	900.6	28.8	23.0	45.70	45.00	17.79
1994	1,078.9	29.7	23.8	47.28	47.00	21.33
1995	954.6	32.7	27.1	53.79	50.00	18.85
1996	1,228.3	34.4	28.4	56.30	53.00	24.28
1997	1,358.8	34.9	29.5	58.61	55.50	26.88
1998	1,564.6	38.8	32.7	64.89	59.00	30.97
1999	1,729.9	40.1	33.2	65.95	62.50	34.25
2000	**1,888.4**	**41.3**	**34.7**	**68.86**	**64.50**	**37.39**

* Revised in accordance with the accounting policies on page 29.

financial and operating review

This review reports on our two areas of operation.

investment

Income and Dividends. Earnings increased by 4% over the year but were, once again, distorted by special dividends; this time from Unilever and Seat Pagine Gialle. Corporate reorganisation and changes to the UK tax system are discouraging conventional dividends and the provision of steady dividend growth in this climate requires a buffer of reserves. This year, being mindful of volatility ahead, we are retaining some of these windfalls. Sustainable dividends on our portfolio grew by about 6.5% over the year, but the reinvestment of our cash and a move away from high yielding investments over the last two years has reduced the average net yield on the portfolio to about 1.6%.

Costs remain at 0.13% of net assets or less than 0.1% after tax relief. This low level reflects the benefits of self management, economies of scale, a low cost location and the fact that the expense of administering, managing and marketing the Alliance wrapper products is covered by the income generated by Alliance Trust Savings.

The caution which stood us in such good stead last year has held us back this year...

Capital. The capital performance this year has been solid, but somewhat disappointing. The 9.2% increase looks unexciting but is consistent with our ten year record of 10.6% compound growth and, in the context of gyrating security prices, is a testament to global diversification.

Compared with our peer group, the performance this year has been below average. The caution which stood us in such good stead last year has held us back this year in comparison with more aggressive funds. At the end of 1998 global growth looked uncertain and we had 5% cash, no gearing and a very widely diversified portfolio. Early in 1999 a pattern emerged of synchronised growth throughout the major economies with markets able to respond by virtue of relaxed monetary conditions. In response, we increased our exposure to Japan, where the recovery was from a very low level, and to companies able to benefit from technological change and the development of e-commerce. At the year end we were fully invested although still without gearing.

GAVIN R SUGGETT, MA MSC FCA (55)
Gavin Suggett trained as a Chartered Accountant in London, read Economics at Cambridge and Business Administration at the London Business School. After working for a number of industrial and commercial companies throughout the UK, he joined the Alliance in 1973 becoming Secretary in 1976, a director in 1987 and Chief Executive in 1995. He started the IT capability in 1974 and, over the years, has had investment, treasury, oil and mineral rights, financial, administrative and investor relations responsibilities. He established and built up the Company's deposit taking and retail product business. He is a deputy chairman of the Association of Investment Trust Companies' (AITC) and chairman of the AITC Accounting Practice Committee.

investment

Left to right

Matthew Strachan, Colin Beveridge, Shona Dobbie, Grant Lindsay, Ron Hadden, Neil Tong

savings

Left to right

Shaun Gillanders, Steven Latto, Fiona Dewar, Kevin Dann,

corporate services

Left to right

Ian Goddard, Neil Anderson, Sheila Ruckley

financial and operating review

Capital performance attribution analysis

	1 Year	10 Years
Performance attributable to the increase in UK FTSE Actuaries All-Share Index	+10.4%	+155.0%
Additional growth from overseas	+1.8%	+20.7%
Underperformance of stocks	-3.0%	-2.7%
Increase in net asset value	+9.2%	+173.0%

We do not have a total return 'benchmark' but, over time, performance has tended to be similar to the UK FTSE Actuaries All-Share Index. Our 'bottom up' approach of looking for the right investment, wherever it happens to be quoted, makes it misleading to attribute performance figures to single geographic markets, but the aggregate figures are revealing, as the above table shows. Geographical diversification has been a positive influence throughout the decade but last year the concentration on service sectors held our stock selection performance back. Technology, telephony and media sectors have been in favour, consumer industries have not and many share prices have fallen sharply.

Performance relative to indices arises both from stocks we hold and from those we do not and last year was notable for the size of winners and losers in each catergory. For instance, our holdings in Mannesmann and Vodafone AirTouch added 1.5% to stock selection performance whereas Rentokil, previously a massive contributor, lost a similar amount. ARM and Colt were strong contributors to the Index but we did not hold them.

The last year highlighted the dichotomy between short and long term horizons. The post-war 'baby boom' generation, currently the most influential group of equity investors, has been driving capital values through weight of money. This could lead to a difficult phase as that generation moves towards retirement and the drawing down of funds. Our focus remains on companies capable of generating growing profits and cash flow over the longer term as these should provide an appropriate store of value.

alliance trust savings

looking back

Organisation. Alliance Trust Savings (ATS) commenced business with £25,000 capital in 1987 and has become a key component in our strategy to generate stockholder value. 1999 saw this more fully recognised through an increase in its capital to £10m and its own authorisation under the Banking Act 1987. Following the reorganisation, 75% of its capital is now owned directly by the Alliance Trust and 25% by the Second Alliance Trust. This change has simplified the structure and ensures that any growth accrues directly to the asset value of the parents.

Business. The table on page 9 shows the growth of the ATS business over the year and incorporates net cash flows which increased by 29% to £113m. Income increased by 12% and, as a bank, ATS benefited from interest margins on deposits. This revenue not only covered operating costs and a considerable investment in our ongoing e-commerce development, but also gave a 10% return on the increased capital.

performance comparisons

to 31 january 2000

	Total return capital and income	
	1 year	10 year
Alliance Trust net asset value†	+11.1%	+239.7%
Average International General Investment Trusts (NAV), size weighted*	+18.6%	+247.0%
FTSE Actuaries All-Share Index†	+12.8%	+235.6%
US Standard and Poors 500 Index (£)*	+11.8%	+432.6%
FT/S&P-AWI Europe Index (ex UK) (£)*	+12.2%	+258.1%
Tokyo (£)*	+68.5%	-6.7%
Halifax 30 day deposit a/c (liquid gold a/c over £25,000)*	+2.1%	+61.3%
Retail Price Index†	+2.0%	+39.4%

* These figures are derived from the AITC February 2000 Monthly Information Service. † See Notes on page 3.

Past performance is not a guide to future performance. Investment in securities does not give you the security of capital which is afforded under a deposit with a bank or building society.

ATS growth by product over the year to 31 january 2000

	Investors		Investors Assets*	
	Nos	Change	£m	Change
Investment Plan	6,659	+19%	85	+33%
PEP	20,717	+5%	774	+11%
ISA	6,959	n/a	34	n/a
Pension Plan	820	+55%	23	+155%
Total	29,071†	+13%	916	+19%

* These included £148m and £88m of stock in the Alliance Trust and the Second Alliance Trust respectively. †Some investors may have more than one Plan.

ATS continued to enhance its products and service. Volume increases enabled us to offer zero stockbroker commission for customers investing in the Alliance Trusts through ATS and to extend the list of securities to over 500. Capacity and efficiency benefited through continued training and a high quality of service was maintained throughout. During the year ISAs were introduced, the Pension Plan was further developed and systems were prepared for Internet connectivity.

looking forward

Marketplace. ATS occupies a novel and exciting position in the financial services market, free from the baggage of 'legacy' products but with a loyal customer base, a robust infrastructure and expanding markets. Not being dependent on physical delivery of its products, ATS is in a good position to benefit from the Internet and our location, away from the City of London, is increasingly an advantage in attracting staff and controlling costs. These factors rank alongside strong security and reliable service as critical for future business success. Unlike many of the 'new model' businesses in this sector, ATS is not only self funding, but profitable.

Our e-business plans involve an online facility with even greater economies for investors and ATS. We need some further reassurance on security issues both to protect the investor and ATS, but progress is being made, and the first investors should be connected later this year.

Investment Plan. Following a remodelling to encompass the full choice of securities offered by ATS, the demand for the former 'Savings Scheme' has increased with investors now holding entire portfolios for themselves, children and grandchildren. There remains more scope for development and the power of the Internet will further enhance the Plan's appeal.

PEP. Although no longer open for new subscriptions, the Alliance PEP and SCP have continued to expand with reinvested income and a substantial number of investors transferring in PEPs originally taken out with other managers. This growth will of course ebb away as withdrawals overtake it but we are hopeful that PEPs will eventually be integrated with ISAs and have a secure future.

ISA. Without a full year of ISA subscriptions, it is a little early to predict the prospects for the Alliance Select ISA. However, if the PEP pattern is repeated, volumes will be similar to last year but with an even greater level of subscriptions invested in the Alliance Trusts. The take up of the Alliance CAT ISA, as yet the only investment trust ISA which meets the Government's standard for 'Charges, Access and Terms', is predictably low. The CAT Standard requires review, particularly with regard to stamp duty, and hopefully this will be considered later this year at the time the Government reviews ISAs. Overall, however, we expect that ISAs will follow PEPs and become a very useful tool for the investor.

Pensions. The Alliance Pension Plan has hitherto only been available for the self employed. It has grown well beyond our expectations due to a steady take up from new investors, substantial funds being transferred from other providers and a high renewal rate. Now that it has been extended to those in non-pensionable employment we expect the demand to accelerate further. This is an area where we see significant future growth: the long term nature of pensions aligns with our own investment philosophy, there is great scope for a non-subsidised low cost product, and the Government's stakeholder pension initiative will, we believe, heighten the awareness of low cost personal pensions. The potential is analogous to that of the US 401k plans and ATS is particularly well placed to expand in this field.

Gavin R Suggett

economic and investment review

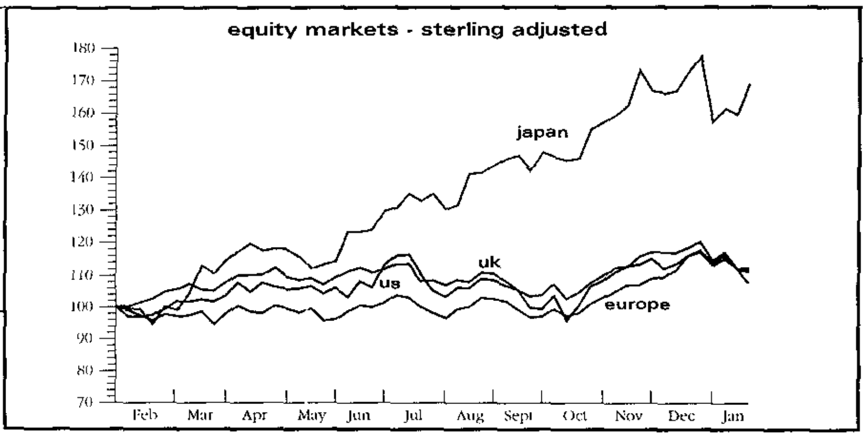
global background

Synchronised world growth. The recovery of the Asian economies proved sharper than had been generally expected at the beginning of the year under review and growth in Europe became more broadly based, with the larger economies benefiting from the weakening Euro. The UK escaped from a dip in manufacturing output, despite Sterling remaining strong, and the service sector continued to expand.

The anticipated gradual slowdown in the US economy failed to materialise. Momentum continued throughout a record ninth year of expansion, although activity in anticipation of the year 2000 date change possibly contributed to the remarkable acceleration in the fourth quarter. In this buoyant environment, Japanese growth benefited both from rising exports, despite the strengthening Yen, and from further fiscal stimulus. Although significant structural improvements continued in Japan, a broad self-sustaining economic recovery remains elusive there. Nevertheless, estimates point to 4% growth in world GDP this year.

Imbalances. Global reliance on US economic leadership persists as the Japanese recovery will take time and European restructuring still has some way to go. The price of better world growth is the extension of several significant economic imbalances, particularly in the US where the current account deficit is approaching 4% of GDP. It is also estimated that some 1% of the US growth rate in each of the last few years has been derived from capital gains in the strong stockmarket. It is this that has helped to transform public finances, enabling the present administration to project the redemption of Federal debt by 2013. It is also economic growth which is improving European public finances, especially in the UK. Although the Japanese government is addressing its structural imbalances, consumer confidence will stay restricted there while radical change goes on, and the slow recovery process means that the budget deficit there is set to expand sharply.

We seek companies which either have substantial long term growth characteristics or can provide growing income without capital risk, thereby continuing to spread exposure and maintain a balanced portfolio.



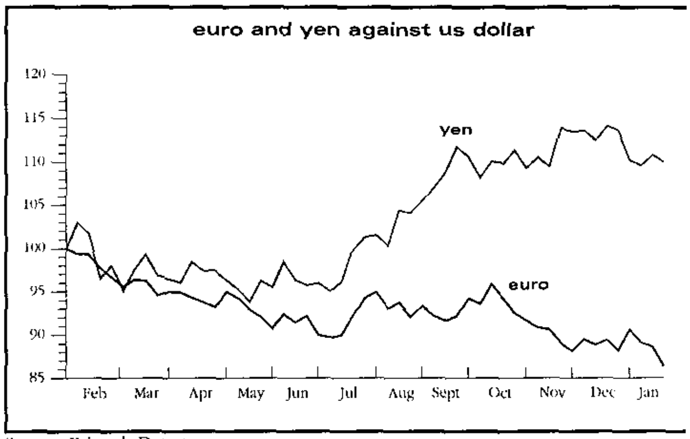
Source: Primark Datastream

ALAN M W YOUNG, MA LLB (53)
After working for 3 years at Buckmaster & Moore, London Stockbrokers, Alan Young joined the Gartmore Investment department in 1977 as an analyst and fund manager, becoming a director of their pension and investment trust management arms in 1983. He joined the Alliance in 1986 and became a director in 1992 with responsibility for the UK and European portfolios. In 1995 he became the director responsible for investment policy formulation and implementation through his team of 6 portfolio managers.

Limits. The growing scarcity of labour is beginning to put limits on US expansion, although consumer inflation is not yet evident other than through the price of oil. As the one-off relief in import costs provided by the Asian crisis comes to an end, productivity growth must stay strong to contain inflation and continue driving asset values. However, the benefits of continuing productivity acceleration, helped by the new technologies, have been well valued up-front through the stockmarket. The resulting wealth effect has supported the increase in both US consumption and business investment, not only ahead of the implied expansion in output itself, but also far in excess of US household savings flows. The high level of US asset values has thereby become a potential risk to global economic stability.

Currencies. The high level of Japanese savings has helped fund the US investment and consumption boom, and the appeal to foreigners of US assets over the last few years has supported the Dollar. Foreign ownership of US Treasury debt is presently substantial and any material reversal in US capital values could therefore be accompanied by a sharp drop in the Dollar, adding to global strains. However, since the Asian crisis, and the Yen's subsequent appreciation, the Dollar has not weakened overall, thanks to the soft Euro. Moreover, in line with economic recovery, the Euro is now expected to strengthen, and the Yen may weaken again as reflation develops in Japan. With ideal timing this could leave the Dollar exposed to only gradual depreciation.

Policy response. This background has necessitated the reversal of the emergency US interest rate cuts implemented after the Russian crisis in 1998, and a further wave of rate increases has begun now that the risk of the year 2000 crisis is over. The Bank of England and the European Central Bank are following the US Federal Reserve's lead but are under less pressure. From here, further monetary tightening is generally likely to be gradual because central banks appear confident enough about controlling demand. Markets are largely pricing in a repeat of the Federal Reserve's past success in gently cooling the US economy to a sustainable level of growth and are assuming few policy changes will accompany the new US President in November. However, it is the supply side challenges of changing economies and developing global oligopolies that policymakers have yet to comprehend fully, and this is uncharted territory.

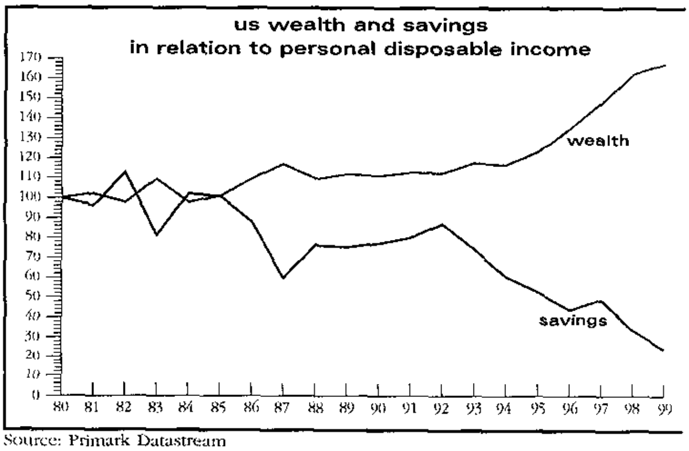


Source: Primark Datastream

business risks and returns

Profits and margins. Greater macroeconomic stability contrasts with turmoil in the corporate sector. The Internet is only the latest source of pressure on profit margins in the trend of opening up world supply and greater transparency of pricing. Nevertheless, US companies' profits growth stood out at 17%, once again well above initial expectations for the year, helped by recovery in Asia and by more rewarding activity in the core European countries. Future profits everywhere are increasingly dependent on achieving further productivity gains from investment or greater focus, typically through corporate activity. Non-US based global corporate champions should develop as European restructuring is now proceeding in earnest, and hostile bids have reached Japan.

Changing market power. Cyclical pressures coinciding with structural change are accelerating the re-allocation of resources from the "old" to the "new" economies. There are, however, limits to the extent of such a trend as a broad, protracted decline in profit margins leads typically to recession. Higher interest rates have more immediate impact on the old economy, whereas the symptoms of overheating



Source: Primark Datastream

economic and investment review

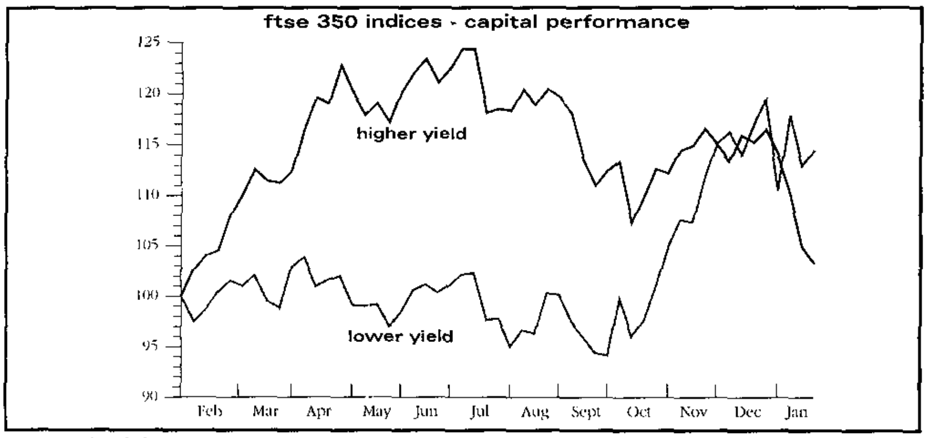
are manifest in the newer areas. Concerted international action avoided global deflation taking root last year but does risk unintended consequences. Oil producers restricted output last spring, nearly tripling the price, while deliberate capacity constraints in computer memory chips gave better prices for their producers but damaged the margins of many computer manufacturers.

Consolidation. The current wave of mergers, often cross-border, has depended on competition authorities' more relaxed stance on global concentration, but industrial consolidation has natural limits. Markets are now viewing many mergers as driven by weakness, providing only temporary cover for uncertain underlying growth, especially in the absence of any premium or return of cash to investors. Stock buy-backs have also lost impact, but any announcement of an Internet strategy can boost sentiment without offering early visibility of profit.

The lesson from the Asian debacle, seemingly almost forgotten, should be that management is ultimately tested by profitability rather than market share. Careful analysis......is more essential than ever.

valuations

Markets. Early in the year there was a healthy broadening in equity markets beyond the very few, highly valued stocks deemed to have real growth prospects. The chart of the high and low yielding elements of the largest 350 stocks in the UK illustrates for most western markets the timing of relative weakness of growth stocks, typically on low yields, versus those representing more mature industries and which offer dividend yield by way of compensation. Stocks in traditional sectors were restrained by the rise in bond yields from the summer when it became clear that economic recovery was genuine and that monetary tightening was likely. Bonds are presently discounting a containable cyclical upturn in inflation, and there should be scope for a decline in yields on evidence of economic slowdown or an extension of stockmarket weakness.



Source: Primark Datastream

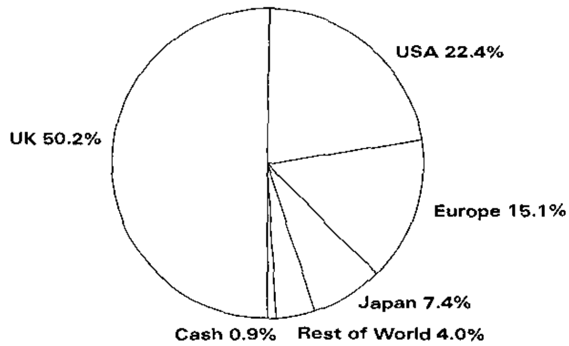
New economy. The long term cost of capital had little bearing on Internet stocks. These took off in late October, just as liquidity was added to the system as a cushion against year 2000 disasters; US stockmarket participants' borrowing 'on margin' rose $45bn. in November and December alone. Indiscriminate valuations apart, some good companies are developing, especially those providing technological infrastructure or unique capabilities. Wider adoption of appropriate Internet strategies by conventional companies will increase competition for others and separate the wheat from the chaff. The lesson from the Asian debacle, seemingly almost forgotten, should be that management is ultimately tested by profitability rather than market share. Careful analysis of business prospects and assessment of prevailing stockmarket valuations is more essential than ever.

portfolio structure and strategy

Activity. A major portfolio move was to allocate £31m to Japanese stocks, further rebuilding that area to exploit long term recovery prospects, having largely sold out some ten years ago on the basis of untenable valuations. Purchases focused on the 'new Japan', characterised partly by technology or telecoms companies but also by young developing companies involved, for example, in replacing the outmoded and protected distribution system. Recovery prospects also led to the allocation of £14m to companies based in other Far Eastern and emerging markets. Europe attracted a net £24m addition, particularly to telecoms and financials, where restructuring is underway. The table below shows broad sectoral changes, and fuller information appears in the Portfolio Review which follows on pages 15 to 20.

Strategy. Uncertainties about the trends affecting the world's economies and markets, and particularly the stocks within them, come now from all directions. However, it is still reasonable to have faith in the world's monetary authorities and regard for well managed companies. Long term, we therefore remain committed to a broad spectrum of equities

geographical spread at 31 January 2000



representing diverse activities, widely spread geographically, despite short term concerns about some valuations. Many hitherto defensive companies' stocks may already have fallen far enough to discount much of the commercial pressures they face. UK stocks in particular were depressed by index weighted funds' forced selling to accommodate Vodafone's expanded market capitalisation, following cross border mergers. Meanwhile, some growth stocks have had such high expectations built around them that the likelihood of acceptable total returns from current prices looks remote, even on the most generous assumptions. We expect markets and individual equities to be relatively volatile, but can gradually exploit that to gain fresh exposure to stocks at values which we can justify. We seek companies which either have substantial long term growth characteristics or can provide growing income without capital risk, thereby continuing to spread exposure and maintain a balanced portfolio.

Alan M W Young

investment changes (£m)	Valuation 31 January 1999	Purchases	Sales	Appreciation (Depreciation)	Valuation 31 January 2000
Resources and basic industries	198	36	(40)	36	230
General industrials and technology	180	67	(26)	99	320
Consumer goods	335	20	(16)	(50)	289
Services	600	98	(97)	77	678
Financials	338	61	(40)	(4)	355
	1,651	282	(219)	158	1,872

company classification of investments

Equities (including convertibles*)	UK %	Europe %	North America %	Japan %	Rest of World %	**Total 2000 %**	Total 1999 %
Resources and Basic Industries	**7.2**	**2.2**	**1.9**	**0.3**	**0.5**	**12.1**	11.4
Chemicals	0.3	0.2	0.1	0.3	–	**0.9**	1.3
Construction and Building Materials	0.4	0.2	–	–	0.1	**0.7**	0.9
Electricity	0.3	0.4	0.6	–	–	**1.3**	1.5
Mining	0.5	–	–	–	0.3	**0.8**	0.4
Oil and Gas	5.5	0.8	1.2	–	0.1	**7.6**	6.3
Water	0.2	0.6	–	–	–	**0.8**	1.0
General Industrials and Technology	**4.9**	**1.9**	**5.8**	**3.8**	**0.6**	**17.0**	10.4
Aerospace and Defence	0.6	–	0.1	–	–	**0.7**	0.8
Diversified Industrials	–	0.2	0.3	0.2	0.6	**1.3**	0.9
Electronic & Electrical Equipment	0.4	0.8	2.0	2.5	–	**5.7**	4.5
Engineering & Machinery	0.4	0.1	0.7	0.6	–	**1.8**	2.1
Information Technology Hardware	1.5	0.4	1.7	–	–	**3.6**	0.1
Software and Computer Services	2.0	0.4	1.0	0.5	–	**3.9**	2.0
Consumer Goods	**6.6**	**2.2**	**5.4**	**0.7**	**0.3**	**15.2**	19.5
Automobiles	–	0.2	0.2	0.1	–	**0.5**	0.6
Beverages	0.5	–	0.5	–	0.2	**1.2**	1.6
Food Producers and Processors	0.8	0.4	0.1	–	–	**1.3**	2.0
Health	0.3	0.6	1.8	–	–	**2.7**	3.5
Household Goods and Textiles	–	–	–	0.2	–	**0.2**	0.1
Packaging	0.1	–	–	–	–	**0.1**	0.2
Personal Care and Household Products	0.3	–	0.1	–	–	**0.4**	0.5
Pharmaceuticals	4.4	1.0	2.6	0.4	0.1	**8.5**	10.2
Tobacco	0.2	–	0.1	–	–	**0.3**	0.8
Services	**20.1**	**6.5**	**6.6**	**1.7**	**1.2**	**36.1**	34.5
Distributors	1.9	0.2	–	0.1	–	**2.2**	1.1
Food and Drug Retailers	0.8	0.5	0.6	0.1	–	**2.0**	2.8
General Retailers	1.6	0.8	2.7	0.5	–	**5.6**	6.7
Leisure, Entertainment and Hotels	1.3	0.1	–	0.1	–	**1.5**	2.1
Media and Photography	3.7	1.0	0.8	0.1	0.3	**5.9**	4.2
Restaurants, Pubs and Breweries	1.3	–	–	0.1	–	**1.4**	2.3
Support Services	2.8	0.5	0.4	0.5	0.5	**4.7**	6.8
Transport	0.1	–	–	–	–	**0.1**	0.1
Telecommunication Services	6.6	3.4	2.1	0.2	0.4	**12.7**	8.4
Financials	**11.4**	**2.3**	**2.7**	**0.9**	**1.4**	**18.7**	19.5
Banks	5.5	1.5	1.0	0.2	0.7	**8.9**	9.8
Insurance	1.7	0.2	1.3	–	–	**3.2**	3.2
Investment Companies	0.6	–	–	0.5	0.5	**1.6**	0.9
Life Assurance	1.5	0.5	0.3	–	–	**2.3**	2.5
Real Estate	0.6	0.1	0.1	0.1	0.2	**1.1**	1.7
Speciality and Other Finance	1.5	–	–	0.1	–	**1.6**	1.4
Total Equities	**50.2**	**15.1**	**22.4**	**7.4**	**4.0**	**99.1**	95.3
Fixed Interest	–	–	–	–	–	–	0.1
Total Investments	**50.2**	**15.1**	**22.4**	**7.4**	**4.0**	**99.1**	95.4
Other net assets	–	**0.9**	–	–	–	**0.9**	4.6
Total assets less current liabilities							
2000 £1,888.4m	**50.2**	**16.0**	**22.4**	**7.4**	**4.0**	**100.0**	
1999 £1,729.9m	54.4	15.9	24.2	2.9	2.6		100.0

* Convertibles represent 2.0% (2.9%)

Top Ten Holdings

company	value £m	company	value £m
British Telecom	63.4	Vodafone AirTouch	36.9
Shell Transport & Trading	52.1	Electrocomponents	32.8
BP Amoco	49.8	Wal-Mart	31.2
Mannesmann	38.2	Glaxo Wellcome	29.9
EMAP	37.6	General Electric	28.6

Source: intel

Introduction

The classification table on the opposite page provides a structured view of the portfolio at industry level and the broad geographic spread. Underneath this structure lie the companies chosen to deliver our objective of providing a long term store of increasing value for the future. The 129 companies listed represent 72% by value of the investment portfolio.

oil

The oil and gas industry experienced another volatile year with the price of Brent crude oil rising from a low of nearly US$10 in February to close the period at over US$26. OPEC's newly found resolve to adhere to production quotas and a revival in global economic growth helped reduce bloated inventory levels. The price move was welcomed by all oil and gas companies as oil at US$10/barrel had put the survival of smaller oil industry companies in jeopardy, particularly those in exploration and production.

The major integrated oil companies continued to face challenging conditions. Exploration and production earnings recovered strongly, but chemicals, marketing and refining activities were faced with escalating input costs. The improvement in global growth was not enough to offset this factor, and these activities produced lower profits.

Corporate activity continued at a brisk pace. Total Fina merged with Elf, Repsol took over YPF of Argentina and BP Amoco bid for Atlantic Richfield. However, it appears that this phase of takeover activity is waning. The US authorities finally allowed Exxon and Mobil to proceed with their merger, a year after it was proposed. However, the same authorities blocked BP Amoco's takeover of Atlantic Richfield, and a long court case is in prospect.

Investment decisions taken during the year were to focus the portfolio on proactive companies which are establishing growth opportunities. A new holding was taken in Repsol while the Total Fina and Exxon positions were significantly increased. Additions were funded through the sale of Texaco and Anadarko and reductions in Chevron and Schlumberger. No new money was invested in the sector.

utilities

Most utility share prices disappointed due largely to the close relationship they have with bond prices, whilst in the UK there were also regulatory concerns. The notable exception was Vivendi, which gained by virtue of its substantial interests in telecom and media activities.

oil	£m	mining	£m
Shell Transport & Trading	52.1	Rio Tinto	9.5
BP Amoco	49.8		
Exxon Mobil	13.0	**utilities**	**£m**
Total Fina	8.3	Vivendi	8.9
Schlumberger	4.9	Consolidated Edison	3.8
Repsol YPF	4.6		

Company fundamentals continue to be influenced by politics, regulation, liberalisation, competition and corporate activity. The German electricity market experienced many of these pressures, resulting in a degree of consolidation, with Veba and Viag proposing to merge. This gave us the opportunity to reduce our holding in Veba.

New holdings were established in the recently privatised Italian companies - Enel in the electricity sector and Autostrade the motorway toll operator. We also took a position in Scottish Power, after the satisfactory outcomes from its UK regulatory reviews and its acquisition of PacifiCorp in the US.

portfolio review

Consumer and Industrial Products

pharmaceuticals and health care

Drug companies continue to announce mergers as they adapt to a changing operating environment caused by advances in medical technologies, the ageing of western societies, and pressure from governments and insurers. Mergers allow cost savings and a more efficient use of the research and development budget. The biggest industry merger, between Glaxo Wellcome and SmithKline Beecham, promises to produce the largest drug company in the world with 7.3% of the global prescription market.

The main pharmaceutical indices underperformed their markets by about 20%, stemming from high valuations at the start of the year and a focus on US Medicare reform and possible pricing controls in the US market. There have also been worries about the ability of some companies to replace drugs which are facing patent expiry.

In contrast, biotechnology shares performed extremely well. A record number of their products were approved during the year and large pharmaceutical companies acquired complete biotech companies to fill out their own drug portfolios.

pharmaceuticals	£m
Glaxo Wellcome	29.9
SmithKline Beecham	26.8
Bristol-Myers Squibb	20.7
AstraZeneca	19.5
Merck	17.0
Abbott Laboratories	10.8
Novartis	10.1
Takeda	7.5
Celltech	6.5

health care	£m
Johnson & Johnson	26.5
Fresenius	4.7
Gehe	4.0
Nycomed Amersham	3.9
food & consumer goods	
Unilever	10.1
PepsiCo	8.1
Diageo	7.1
Reckitt Benckiser	5.5

Source: Celltech

During the year we sold our holding in Roche which is heavily dependent on its anti-obesity drug. Additions were made to Glaxo Wellcome, SmithKline Beecham and Celltech, and a new holding was taken in Hoechst prior to the creation of Aventis from its merger with Rhône Poulenc.

food, beverages and household products

Over the last year there were significantly diverse performances recorded within this broad consumer grouping. Food producers suffered one of their worst years as profit warnings appeared from large global players such as Coca-Cola, Kellogg, and Unilever. Other sectors fared relatively better, due to the good performance of some luxury brands in the run up to the new millennium. Throughout the entire year, both low cost and luxury ends of the market performed relatively well at the expense of the middle market, and this trend could continue into the year 2000. We lightened our exposure to these sectors in the UK and remained underweight in the US and Europe.

electronics, engineering and industrial

Engineering stocks, after an initial cyclical rally, were largely ignored by the markets which have instead favoured growth stocks. We reduced our exposure to General Electric of the US which faced tough world markets. British Aerospace, now BAE Systems, bought the defence businesses of GEC but suffered from the poor performance of comparable US companies and the fact that, so far, it has been seen only as a peripheral participant in consolidation of the European defence industry. We reduced our holding accordingly. We also took profits in Finmeccanica, built up a holding in Rolls-Royce which has a very resilient after-market, and retain an exposure to Sidel which offers growth from advances in plastic bottle technology.

Our electronics holdings have been exciting with GEC, now renamed Marconi, positioning itself as a communications infrastructure company. It was moved to the IT sector and duly re-rated. Siemens has executed its restructuring efficiently and has performed well. Renishaw provided another solid year of outperformance. A notable new holding acquired during the year was NXT, involved in flat speaker technology development and moving into speech recognition technology, performing spectacularly well as the market has become hungry for technology-related stocks.

electronics & electrical	£m	**engineering**	£m
General Electric	28.6	BAE Systems	8.5
Canon	9.6	Illinois Tool Works	7.6
Sony	7.6	Finmeccanica	4.3
Keyence	6.9	**other industrial**	
Matsushita Electric	6.7	Hutchison Whampoa	9.1
Murata Manufacturing	6.3	Pentair	4.4
Renishaw	4.5	Hoya	3.7
W W Grainger	4.1		

information technology

After the year 2000 date change, the global IT industry saw a continuation of the robust demand conditions, driven primarily by rapid penetration of Internet-based computing serving both the business and consumer markets. IT spending has risen in all of the major global economies during 1999 as businesses implement Internet and related IT solutions. These offer efficiencies in supply chain management, back office automation and the means by which new and existing customers are reached. With rising Internet penetration driving IT spending higher, we believe that the key Internet enabling companies will be major long term beneficiaries.

information technology	£m		£m
Marconi	19.8	Ericsson	4.7
Cisco Systems	13.6	Sun Microsystems	4.4
SAP	12.5	Sema Group	4.3
Misys	11.1	Filtronic	3.8
First Data	10.2	Microsoft	3.8
Logica	10.1	IMS Health	3.8
Intel	9.2	Admiral	3.6
CAP Gemini	4.9	Nokia	3.3
Psion	4.7	Trend Micro	3.1

Relating this to equity markets, the acceleration of IT spending has combined with investor enthusiasm to push valuations to unprecedented levels, despite record new equity issuance. Our increased exposure to the sector has therefore been focused on companies within subsectors having high barriers to entry, strong demand and valuations not fully discounting long term prospects for growth. We remain cautious on speculative start-ups which often operate merely as parallel providers of existing consumer and enterprise services valued at extremely high levels.

The areas we prefer are telecom equipment, mobile Internet and e-commerce software for supply chain, customer relationship and knowledge management. The repositioning of Marconi, formerly GEC, and new holdings in Cisco Systems, Intel and Lucent give exposure to communications and Internet infrastructure. Our holdings in Ericsson, Psion and Filtronic access the wireless world. In software, we have built up holdings in companies with Internet and e-commerce enabling technologies such as Sage, Microsoft, Sun Microsystems, Autonomy, Cap Gemini, DCS and Brokat. In Japan, our emphasis is towards software and outsourcing companies. New Japanese holdings include Trend Micro, a leader in anti-virus software, NTT Data, a systems integrator, and Obic Business Consultants, a newly listed software developer.

portfolio review

Services

telecommunications

The telecom sector significantly outperformed world stock markets as investors became more attracted to the sustainable growth generated by the Internet, rising data traffic and increasing mobile penetration and usage.

Incumbent operators' traditional fixed-line voice activities remain under pressure with falling tariffs and a need to realign costs accordingly. To compensate for this they are highlighting the value of high growth operations through financial engineering techniques such as spinning-off part of a subsidiary or joint venture. In this context, Telefonica has already divested a minority of its Internet and Yellow Pages companies. Corporate activity has also been a feature across most geographical and business segments, particularly within the mobile telephony arena. Vodafone successfully integrated last year's purchase of AirTouch and has now acquired Mannesmann. Following the completion of this acquisition, Vodafone will be our largest holding in the portfolio. The outlook for Vodafone is exciting with its unique global position and its mobile Internet proposition.

We raised the level of our investment exposure with new holdings in MCI WorldCom, UPC, Kingston and Jazztel. Existing positions in Vodafone, Mannesmann, Cable & Wireless and Telefonica were increased. Our holdings in BT and BellSouth were reduced and cash was returned via the Airtouch takeover and Securicor's sale of its holding in Cellnet to BT.

telecommunications	£m		£m	**support & distribution**	£m
British Telecom	63.4	US West	6.1	Electrocomponents	32.8
Mannesmann	38.2	GTE	5.2	Hays	21.2
Vodafone AirTouch	36.9	NTT	4.1	Rentokil Initial	18.3
Cable & Wireless	21.2	TELEMEX	3.8	Securitas	8.0
Telefonica	12.5	MCI Worldcom	3.7	Brambles	7.4
Bell Atlantic	8.8			SECOM	5.0
SBC	8.6			Serco	4.5
France Telecom	8.3			Securicor	4.4
BellSouth	6.8				

Source: Mannesmann

support services and media

Individual companies within the support services area experienced widely differing share price fortunes. Some, whose business models looked mature, have been heavily de-rated. Others, embracing new technology, are seen to be integral to the enablement of new Internet businesses and have been rewarded. Many Internet ventures will still require to deliver physical product and this partly influenced a decision to increase our holding in Securicor, now mainly involved in distribution and security. Outsourcing of business functions is still a growing trend, and we increased our holding in Serco, a company with expertise in this area. We reduced our weighting in Rentokil Initial.

Media companies have benefited from the perceived importance of content on the Internet. Advertising also grew strongly, boosted by Internet brand-building. The rapid advance of the Internet and digital technologies is blurring distinctions between different media, this being dramatically demonstrated by the proposed merger of AOL and Time Warner, the latter of which was one of our new holdings during the year. We also bought VNU, Reuters and United News and Media. In the UK, Carlton, United News and Media and Granada are engaged in the process of trying to merge, probably with the ultimate aim of forming a single ITV company.

retail

Despite an improving macroeconomic background and a pick up in consumer expenditure, last year was one of the worst ever recorded for the consumer sectors with the retail sector in the UK underperforming the FTSE Actuaries All-Share Index by more than 28%. This reflected growing concerns about the extent of margin pressure, following the entry of Wal-Mart into the UK through the acquisition of Asda, poor market conditions for the clothing retailers and the threat of alternative distribution channels, primarily e-commerce. In Europe, the retail sector also performed poorly.

In the USA, however, the consumer spending binge continued, reflecting the buoyant labour, equity and housing markets. Polarisation in the retail market resulted in a strong performance by those companies with dominant positions such as Home Depot and Wal-Mart. However, faced with the prospect of rising interest rates and a possibly reduced beneficial impact from the wealth effect of rising equity markets, we reduced our heavy holding in Wal-Mart.

We also reduced our exposure to the retail sector both in the UK and in Europe. In the UK, we lightened our positions in Boots, Safeway, Marks and Spencer and Great Universal Stores, while in Europe we not only reduced our holdings in Colruyt, a Belgian supermarket chain, and Douglas, a German retailer specialising in perfume and jewellery, but also exited from several of our other investments in Germany, including Adidas, the sporting goods manufacturer, Karstadt, a department store chain, Hornbach Baumarkt, the DIY retailer, and Cewe Color, a photo-finishing company. We also sold our entire holding in Laurus, a Dutch food retailer, on concerns of further price competition within Europe.

Despite the expectation of more interest rate increases, the outlook for consumer expenditure remains benign within the UK and Europe, but traditional retailers may suffer further from the fear of margin pressure from Internet distributors, leading to mergers and acquisitions.

brewers, hotels & leisure

Brewers, pubs and hotels experienced largely dull trading, and along with other consumer areas suffered in share price terms. We reduced our exposure to Scottish and Newcastle earlier in the year. Generally, the underlying businesses remain sound and the industry is responding through consolidation, divestments and, in the case of Hilton, new Internet ventures.

media	£m
EMAP	37.6
Carlton Communications	12.0
Pearson	11.9
Media One	7.1
Seat Pagine Gialle	5.9
VNU	4.5
Singapore Press	4.3
Gannett	4.1
Time Warner	4.0

Source: EMAP

retail	£m		£m
Wal-Mart	31.2	Castorama	4.8
Home Depot	20.1	Ito Yokado	4.7
Marks & Spencer	9.9	Sainsbury	4.2
Tesco	8.8		
Great Universal Stores	7.2		
Kingfisher	6.5		
Koninklijke Ahold	6.1		
Walgreen	5.1		

breweries, pubs & restaurants	£m
Compass	8.5
Bass	6.9
Whitbread	3.9
hotel & leisure	
Granada	16.8
Hilton	7.7

Source: Bass

portfolio review

Financials

banking

Against a backdrop of weak bond markets, positive capital returns from bank shares proved elusive, particularly in the UK and US. The environment in Europe was also challenging, although a number of the more lowly rated German and French banks produced very generous double digit capital returns. Interest rates apart, the industry has, in recent months, come to be dominated by concerns about structural change, especially through the Internet. The new emerging competitive landscape, which is global in its reach, poses a real threat to industry margins, and hence established major players are developing a range of e-commerce projects as a means of cutting costs, extending distribution and increasing cross selling opportunities. We added to our holdings in HSBC, Barclays and Halifax but withdrew completely from Abbey National. In Europe, sales of Swedbank and Argentaria helped fund an increase to our position in BNP and also new holdings in Credit Lyonnais, ABN Amro and BNP.

insurance

Despite UK, US and European insurers posting negative returns relative to broad indices, a number of the fund's holdings bucked the international trend. American International, Marsh & McLennan, CNP Assurances, Prudential and Independent Insurance all delivered excellent performances. In view of this strength we carried out measured reductions of Marsh & McLennan, Prudential and CNP, the proceeds being recycled into a newly established holding in Allianz plus additions to CGU, Norwich Union and Aegon. Looking ahead, surplus capital is still a major negative for non-life insurers although some comfort flows from price rises in certain lines of business. Growth opportunities for life assurers emanate from helpful demographics associated with ageing populations and moves toward increased private provision for pensions and healthcare, particularly in Europe. Stakeholder pensions arrive in the UK from April 2001, and with basic charges limited to 1%, cost efficiency, multi distribution and product innovation will be critical for profitability.

banks	£m		£m	**insurance**	£m
National Westminster	21.6	Commonwealth Bank		Marsh & McLennan	17.4
Bank of Scotland	19.1	of Australia	4.3	CGU	16.4
Lloyds TSB	16.4	ABN Amro	4.0	Prudential	15.1
Royal Bank of Scotland	15.3	**property**		Legal & General	9.0
Barclays	12.4	Slough	11.7	Independent	8.8
HSBC	8.8	**investment trusts**		Allied Zurich	7.2
Standard Chartered	7.0	Electra	6.6	American International	6.2
BNL	5.3			Norwich Union	5.0
Comerica	5.0			CNP	4.4
Halifax	4.4			Reliastar	3.9

Source: Halifax

how the company works

the structure of the company

constitution

The Alliance Trust is an investment company incorporated under the Companies Acts, with its constitution set out in its Memorandum and Articles of Association. It is an Inland Revenue approved investment trust, which enables it to realise its investments free from taxation on capital gains. Approval is retrospective and has been received in respect of the financial year to 31 January 1999. The Company has subsequently directed its affairs to enable it to continue to seek approval.

management

Most investment trusts today employ an investment management company to manage the portfolio and to carry out secretarial and administrative functions. No staff are employed and there is no executive function within the investment trust.

This is not the case with the Alliance Trust, which is self managed. It has its own premises, employs its own staff, takes its own investment decisions and manages its own affairs. There are, therefore, no potential conflicts of interest on cost, investment policy or strategic direction between the interests of the Company and any single third party. The alignment of interest between the stockholders and the management is inherent in the organisation and structure of the Company and is evidenced by the exceptionally low expense ratio, long term investment performance and the Company's success in developing attractive investment products for its own stockholders.

relationship with the second alliance trust

The Company has, since the 1920s, operated successfully alongside the Second Alliance Trust, another self managed investment trust company which is about one third the size of the Alliance Trust. Staffing costs, and the expenses of operating both companies out of Meadow House, Dundee, where they both have their office, are shared. Uniformity of interest is achieved by both companies having the same investment objective, substantially the same investments in their portfolios and the same individuals holding office as directors. Independent advice is taken in respect of any matters which could give rise to a conflict of interest between the companies. The arrangement, although unusual, works well for the benefit of both bodies of stockholders.

relationship with alliance trust savings

The business of Alliance Trust Savings ('ATS') is to provide stockholders of the Company and the Second Alliance Trust with a means of purchasing and holding stock in the most convenient, flexible, cost and tax efficient way appropriate to their own circumstances. This is achieved by providing "wrapper" products (ISAs, PEPs, Investment/Savings Plans and Personal Pensions) which enable stockholders to hold stock in the Company and to choose their own portfolios from a wide range of securities. These wrappers are all administered in-house, using ATS' own systems and staff. This ensures a consistent and coherent design, a single point of contact and integrated reporting where investors use more than one product.

ATS is jointly owned by the Company (75%) and the Second Alliance Trust (25%) and, since its inception 13 years ago, has been an integral part of the service and value provided to stockholders.

stockholders

At 31 January 2000 the Company had 30,570 stockholders on its register of members. This includes many individuals, trusts, charities, pension funds and insurance companies. The register also includes many nominee holdings, generally used by professional advisers and custodians to simplify administration of clients' assets. It includes the nominee operated by ATS which, at the same date, held Alliance Trust stock for 19,010 investors.

directors

composition of the board of directors

The Board consists of four independent non-executive directors and two executive directors. The non-executives are the Chairman, Bruce W M Johnston, Andrew F Thomson who is the senior independent director, William Berry and W Nelson Robertson. The executive directors are Gavin R Suggett, chief executive, and Alan M W Young, investment director.

The Chairman plays an important role, along with the other non-executives, in bringing an independent and objective view to the activities of the Group. All these individuals also bring particular expertise and experience to the direction of the Group, and are chosen for this and for their ability to meet the substantial commitment required for attendance at meetings.

Biographical details of the directors are given on pages 5, 6 and 10.

how the company works

how directors are appointed

Nominations of directors are considered by the Board which also makes the initial appointment. Such appointments are approved by the stockholders at the next annual general meeting. Non-executive directors are appointed for specific terms, which may be renewed, and all the directors, executive and non-executive, submit themselves by rotation for re-election by the stockholders at least every three years.

meetings of directors

The directors meet regularly for Board meetings of the Company (monthly), Alliance Trust Savings (quarterly) and for meetings of the audit and remuneration committees. For these meetings the directors are provided, in advance, with financial reports and appropriate papers which enable them to monitor operational and corporate issues as well as decide on policy. The directors meet informally most Fridays to discuss current issues with members of the management team.

The informal meetings are useful for the gathering of views, and, in an industry where the latest news can easily eclipse the direction of underlying economic tides, they create time and enable reflection on issues before decisions are required.

authority and delegation

The directors have agreed that there are certain strategic matters which the Board alone must decide and these are specified in a Schedule, which is reviewed from time to time. Specific authority is given to Board committees to carry out identified tasks, and day to day management is delegated to the executive directors.

committees of the board

Details of the audit committee and its responsibilities are given on page 27 in the section on accountability and audit.

No separate nomination committee has been constituted as, given the size of the Board and the regularity and frequency of its proceedings, the Board as a whole is able to fulfil the formal procedures required before a director is appointed.

The remuneration committee consists of William Berry, Bruce Johnston and Nelson Robertson, with the senior independent director, Andrew Thomson, as the chairman.

directors' remuneration

how directors' remuneration is determined

The non-executive directors receive fees but do not have contracts of employment or receive pension benefits. The maximum fees payable to them in aggregate each year is laid down in the Articles of Association and presently stands at £95,000. Any increase in that figure must be approved by the stockholders.

The remuneration committee takes advice from professional advisers before deciding upon the remuneration of the executive directors, taking into account local and national employment market conditions and the remuneration structure of the organisation as a whole. No executive director is involved in deciding the level of his own remuneration.

employment contracts

Both executive directors have contracts of employment which are terminable by the Company on one year's notice. In the event of termination, the director would have a duty in law to mitigate any loss and the remuneration committee has a duty to bear this in mind in recommending any payments on termination. Both executive directors also have contracts of employment with the Second Alliance Trust. Copies of these contracts are available for inspection at AGMs and at Meadow House during normal business hours.

executive remuneration policy

It is and has been the Company's policy to set the remuneration of executive directors at a level to attract and retain executives of appropriate ability, experience and integrity, without paying more than is necessary. Executive directors are paid salaries which are reviewed each year in the light of market conditions and individual performance. No bonuses, share options or other incentive schemes are currently in operation.

The Combined Code on Corporate Governance recommends that performance related elements "should form a significant proportion of the total remuneration package of executive directors". The Board has concluded that the present approach to remuneration, which applies to all staff, encourages teamwork and a longer term perspective.

During the year the Board commissioned a wide-ranging external review of the structure and level of its executive remuneration as compared with others in the financial industry and the main difference identified is the absence, at the Alliance Trust, of any cash bonus or share option schemes. However, our structure and location differentiate us from many in the financial industry and we have continued to be successful in recruiting and retaining high quality staff without such schemes.

The Board believes that the current system of combining individual performance appraisal with salary based remuneration is a proven and effective means of encouraging individual effort and rewarding outstanding contributions to the Company. It also believes that this system ensures that staff energy is channelled towards the achievement of our long term objectives and is better than a system which is largely dependent upon short term targets.

The Group has achieved its success largely through teams of skilled individuals working together with efficient systems and by providing and developing attractive financial products. All of these have taken many years to build.

The Board is conscious that, important as remuneration is for motivating staff, equally important is the provision of a stable and supportive environment. This can be promoted by the alignment of the interests of staff and of stockholders. We are particularly fortunate in this regard as our 'customers' are our stockholders, staff work only within the Alliance and Second Alliance Trusts and their continued employment is dependent upon the long term health of the Trusts and stockholder support. Many of the staff already own stock in the Company and it is proposed that, once the legislation is in place, consideration will be given to an All-Employee Share Scheme which would further strengthen the common interest.

directors' remuneration

	Group		Company	
	year ending	year ending	year ending	year ending
Fees paid to non-executive directors	**2000**	1999	**2000**	1999
	£	£	**£**	£
William Berry	**13,250**	11,000	**9,938**	8,250
Bruce W M Johnston (Chairman)	**26,500**	22,000	**19,875**	16,500
W Nelson Robertson	**13,250**	11,000	**9,938**	8,250
Andrew F Thomson	**13,250**	11,000	**9,938**	8,250
Non-executive directors' remuneration	**66,250**	55,000	**49,689**	41,250

	Salary		Taxable Benefits*	
Remuneration paid to executive directors	**2000**	1999	**2000**	1999
(Group and Company)	**£**	£	**£**	£
Gavin R Suggett (highest paid director)	**129,875**	121,375	**686**	774
Alan M W Young	**107,625**	100,625	**4,027**	4,393
Executive directors' remuneration	**237,500**	222,000	**4,713**	5,167

* Alan Young has the use of a company car. Both executive directors have private medical insurance for themselves and for those members of their immediate family under the age of 25.

how the company works

pensions for executive directors

Both executive directors are members of an Inland Revenue approved, non-contributory, defined benefit pension scheme (see note 17, page 40) which is open to all qualifying employees. The scheme provides for a maximum pension of two thirds final pensionable salary at a normal retirement age of 60 with a one sixtieth accrual rate. Early retirement after the age of 50 may be taken with the consent of the Company. A surviving spouse's pension of half the director's pension is payable on death after retirement.

Both directors joined the scheme prior to 1 June 1989 and their prospective pensions are not subject to the Inland Revenue earnings cap. On retirement, they may commute part of their pension to a cash lump sum, within Inland Revenue limits.

Pensions in payment are increased annually by 5% or by the increase in the UK retail price index, whichever is the lower. Discretionary increases are also permitted in terms of the rules of the scheme, but may not be applied to any transfer value to another pension scheme.

There are no defined contribution schemes except the additional voluntary contributions scheme which is part of the occupational scheme. Neither director makes such contributions.

The table below, which gives the accrued pension entitlements of the executive directors, takes into account existing entitlements which are provided for in the funding rate.

executive directors' pensions

	Age at 31 January 2000	Accumulated total accrued pension at 31 January 1999	Increase in accrued pension during year resulting from inflation	Accrued pension over and above inflation during the year	Accumulated total accrued pension at 31 January 2000
		£	£	£	£
Gavin R Suggett	55	67,213	2,151	5,349	74,713
Alan M W Young	53	30,741	984	3,845	35,570

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 accrue evenly over the period to his 60th birthday.

In August 1988, Alan Young was credited with 5 years' pensionable service, 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.

insured benefits

If an executive director dies in service, all entitlements from the pension scheme are extinguished. In their place, insurance cover maintained by the Company provides a lump sum of up to four times salary, surviving spouse's pension of one half of the director's prospective pension and, if applicable, a pension equal to one third of the surviving spouse's pension for each child under 21 and in full time education (up to a maximum of three children). Also provided for through the pension scheme is disability insurance. In the event of the incapacity of a director whilst in service, up to 75% of salary (less state benefits) would be payable to him. These insured benefits are common to all members of the pension scheme, have no value on leaving service, and carry no transfer value.

cost to company of insured benefits for executive directors

	Death in service benefit (percentage of own salary)	Disability benefit (percentage of own salary)
Gavin R Suggett	5.3 %	1.9%
Alan M W Young	3.4 %	0.9%

directors' interests

All the present directors served throughout the year. During the year, no director had any material interest in any contract, being a contract of significance, with the Company or any subsidiary company.

Each director is required, in terms of the Company's Articles of Association, to hold at least 200 ordinary stock units. 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 body corporate in the same group as the Company.

The table below gives the total interests of each individual director in the ordinary stock at 31 January 2000.

Since then the following changes have occurred: William Berry has ceased to act as trustee to seven trusts, thereby reducing his non-beneficial interests in the Company's stock by 6,685 units. On 15 February 2000, Gavin Suggett acquired, beneficially, 42 ordinary stock units through the Alliance Select ISA. There have been no other changes in the interests of the directors between 31 January and 13 March 2000.

directors' interests (stock units of 25p)

	31 January 2000		*1 February 1999*	
	Beneficial	**Non Beneficial**	**Beneficial**	**Non Beneficial**
William Berry	756	51,089	750	64,977
Bruce W M Johnston	402	15,186	289	14,536
W Nelson Robertson	1,000	1,000	1,000	1,000
Gavin R Suggett	677	8,992	437	8,721
Andrew F Thomson	10,600	152,166	12,576	152,166
Alan M W Young	1,941	—	1,840	—

relations with stockholders

communications with stockholders

The Company encourages communication with stockholders on matters of mutual concern and interest. All registered stockholders receive an annual report and accounts and an interim statement each year. These are also sent to stockholders who hold their stock through nominees and have requested such information from the Company.

The annual general meeting is held in Dundee each year to which a warm welcome is extended to all stockholders (see page 42 for details of this year's meeting). The management meets stockholders, institutional investors and financial advisers in Dundee and elsewhere, and participates in events for private investors such as those organised by the Association of Investment Trust Companies.

Much communication with stockholders is achieved through ATS, whose products all have as a common feature a minimum investment in the stock of the Company or the Second Alliance.

notifications by substantial stockholders

The Company must be notified when any stockholder, acting alone, or in concert with one or more other parties, acquires an interest of 3% or more in the Company's ordinary stock. The Company has been notified of the following interests:

	Ordinary stock units	
The Standard Life Assurance Company	3,274,399	(6.50%)
D C Thomson & Co Ltd	3,241,503	(6.43%)

how the company works

compliance with the code of best practice

The section "How the Company Works" constitutes the statement on the application by the Company of the principles of the Combined Code on Corporate Governance, as required by the London Stock Exchange.

The Board confirms that, except where otherwise stated, throughout the period of this report the Company has complied with the provisions of the Combined Code. The two areas of variation are that the Board has not appointed a nominations committee (explained at page 22), and separate, performance related elements do not form part of the total remuneration package of executive directors (explained at page 22).

accountability and audit

financial reporting

The Chairman's Statement, Financial and Operating Review and Economic and Investment Review on pages 2 to 13 give the directors' assessment of the Group's position and prospects. The auditor's statement is found on page 41.

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 Group and the Company 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 hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The directors confirm that the financial statements of the Group and the Company for the year ended 31 January 2000 have been prepared on a going concern basis and 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.

internal control and risk management

The Board is aware that it is its responsibility to ensure there is a sound system of internal control in place within the Group and to review its effectiveness. The system is designed to manage rather than eliminate risk as any system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board carries out a review of significant business risks and formally considers the scope and effectiveness of the Group's system of internal control annually. The review takes into consideration the nature and extent of risks inherent in the Group's activities including changes identified during the course of the year, the extent and frequency of reporting to, and matters discussed by, the Board and its committees during the year, including those issues identified in reports received from the audit committee. In addition to the annual review, the Board keeps risk issues under scrutiny during the year and seeks to satisfy itself that risks are being actively monitored.

The Board confirms that procedures, which accord with published guidance for directors on compliance with the Combined Code, have been in place for the year under review and continue to be in place. These procedures ensure that, at both Board and management level, consideration is regularly given to the nature and extent of risks faced, or likely to be faced. They also provide mechanisms to assess whether, as a result of these changes, further action is required to manage the risks identified.

With regard to its own investment activities and the development of its retail products business through ATS, the Group seeks to manage the balance between risk and return in a prudent manner. The balance achieved need not compromise rigorous compliance with statutory and regulatory provisions, or adherence to principles of good business management. However, no system of internal control can give an absolute assurance against misstatement or loss, but such controls should prevent or detect areas of shortcoming and minimise the risk of loss through incompetence, neglect of duty, mistake or fraud.

Throughout the Group, the most important aspect of the system of internal control is the creation of a culture which promotes honesty and integrity and favours compliance as a positive aid to business. The main control mechanism at Board level is the division of powers, with the roles of chairman and chief executive separated. There is commitment to a non-executive majority on the Board and a strong audit committee.

Departmental structures with clear lines of managerial responsibility, backed up by interdepartmental support functions, such as IT, financial control, legal and personnel, ensure that no one person controls all aspects of any function. Procedures define responsibilities, and the rolling internal audit and compliance monitoring programmes provide independent reassurance that systems are robust and regulatory requirements are being met.

audit committee and auditors

The non-executive directors, William Berry, Nelson Robertson and Andrew Thomson together with Bruce Johnston as the chairman, form the audit committee. The committee operates under specific terms of reference and meets at least three times a year, including prior to the publication of the Group's interim and final results.

One meeting is dedicated to examining issues of internal control. At this meeting the committee considers reports by the internal auditor and ATS compliance officer, the annual internal audit plan and a report by external consultants on the internal audit function. The committee keeps under review both the scope, authority and resources of the internal audit function and the provision, cost effectiveness and objectivity of external audit services.

The internal auditor and compliance officer of ATS, together with the external consultants and statutory auditor, have the opportunity to talk to the committee alone, outwith the presence of all members of the executive. They also have the opportunity to approach the chairman or other members of the audit committee directly at any time, or call for a meeting of the committee to be convened.

other policies

investment risk and financial statements

The Company's approach to internal control and risk management is summarised above. However, Financial Reporting Standard 13 requires a statement highlighting the risks and potential risks of financial instruments specifically, and how the Company manages them. The following statement fulfills that requirement.

An element of risk is inherent in investing in equities. This risk is managed through a judicious choice of investments in enterprises diversified across different business sectors and economies. Notwithstanding the diversification, in the short term, the aggregate valuation of these investments is subject to considerable fluctuation in response to changes in interest rates, currencies and market sentiment. However, over the longer term, the cyclical nature of economic factors and the ability of the enterprises in which the Company chooses to invest to adapt to the changing environment should ensure that, for most of the investments, the compounding effects of long term growth exceed the most extreme short term fluctuations in value.

The Company does not aim to enhance returns by any trading activity itself and there is therefore little requirement for short term borrowing or hedging through financial instruments and derivatives. Longer term returns and risks can be increased by long term borrowing, but in recent years the Board has considered that the risk of income and capital loss has outweighed any potential for increased returns. Past borrowings are now small and there are no other contractual commitments which are likely to lead to any conflict between short term liquidity requirements and long term policy.

The directors review the disposition of the portfolio and the economic and valuation risks each month with the executive, and any change to the above approach to risk and return would require Board approval. Details of the activity during the year, the investment strategy and the spread of the portfolio are given in the economic and investment and portfolio reviews commencing on page 10. Further required information is given in the notes to the accounts on page 36.

how the company works

voting

The Company owns investments in many listed companies and its policy wherever practical is to vote its shares, usually by arranging for a proxy to be lodged.

policy and practice on payment of creditors

The Company settles all dealings in investments in accordance with the terms of the relevant investment exchange. Investment apart, the Company either accepts the suppliers' payment terms or settles terms of payment with the supplier individually when agreeing each transaction, and so the supplier is always aware of the terms of payment applicable. The Company pays suppliers according to the terms so agreed.

At 31 January 2000 the Company had no trade creditors. ATS, its principal operating subsidiary, had trade creditors of 10 days' purchases.

data protection

The Company and ATS are both controllers under the Data Protection Act 1998. The company receiving information from or about stockholders or investors (for example from a stockbroker) verbally on the telephone or in writing, by fax or by any other electronic or digital means of communication may process it. For secutity and compliance monitoring purposes telephone calls may be recorded.

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. The Company does not, however, otherwise make this information available to third parties.

ATS' records about its clients are confidential and are only disclosed on the client's authority or where ATS is obliged to do so by law or regulation. ATS does not sell or otherwise make its client list available to third parties.

environment

The Group seeks to conduct its own affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

Using reporting guidelines issued by the Department of the Environment, Transport and the Regions, UK greenhouse gas emissions during the year by reason of the Group's activities (office heat and power requirements and employee travel) are calculated to be approximately 102 tonnes of carbon dioxide. This is the equivalent of running approximately 9, three bar electric fires for a year.

donations

The Company is a member of ProShare which promotes individual share ownership and which has charitable status. £6,250 (£6,250) was subscribed during the year as a membership fee. No political or charitable donations have been made.

year 2000

The testing of the Group's systems was completed in the year to 31 January 1999 and little remained to be done in the current year. Costs, which consisted mainly of staff time, were insignificant. No millennium related difficulties have been experienced.

By order of the Board
Sheila M Ruckley
Sheila M Ruckley

Secretary

Dundee, 13 March 2000

accounting policies

1. basis of accounting

The financial statements which follow on pages 30 to 40 have been prepared under the historical cost convention, modified to include the revaluation of fixed assets. They also 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 2000, made up to the same date. The Company and its subsidiaries comprise the Alliance Trust Group. The accounting policies adopted for 2000 differ from those used in previous years as regards the recognition of dividend income and, where appropriate, the 1999 figures have been re-stated.*

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 carried out during the 1995/96 financial year by chartered surveyors on a current open market value basis with subsequent additions at cost. 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 quoted 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. Franked investment income and foreign income dividends are shown as the amount receivable only.

Other 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.

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 as the case may be.

5. 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.

6. pension costs

The pension scheme is a defined benefit scheme and is open to all qualifying employees. Contributions are charged against revenue. They are calculated by reference to actuarial valuations carried out for the trustees at intervals of not more than three years. They represent a proper charge to cover the accruing liabilities on a continuing basis.

** Following changes to the treatment of tax credits, UK dividend income is now shown net rather than inclusive of the tax credit, as previously disclosed. In the year to 31 January 2000 this change reduces Group UK dividend income and taxation equally by £2,736,000 and Company UK dividend income and taxation by £2,807,000 but does not affect the revenue return attributable to equity stockholders. The comparative figures have been similarly adjusted with reductions in Group UK dividend income and taxation of £3,748,000 and in Company UK dividend income and taxation of £4,067,000.*

consolidated statement of total return

for the year ended 31 january 2000

	Notes	2000 Revenue £000	2000 Capital £000	2000 Total £000	1999 Revenue £000	1999 Capital £000	1999 Total £000
investment income	1						
UK dividends		**23,989**	–	**23,989**	15,135	–	15,135
UK scrip dividends		–	–	–	729	–	729
Foreign income dividends		**321**	–	**321**	6,247	–	6,247
		24,310	–	**24,310**	22,111	–	22,111
UK interest		**1,720**	–	**1,720**	1,662	–	1,662
Overseas dividends		**12,338**	–	**12,338**	10,425	–	10,425
Overseas scrip dividends		**109**	–	**109**	32	–	32
Overseas interest		**16**	–	**16**	33	–	33
Mineral rights income		**196**	–	**196**	295	–	295
		38,689	–	**38,689**	34,558	–	34,558
other income							
Deposit interest		**4,874**	–	**4,874**	7,935	–	7,935
Savings and pension product charges		**2,073**	–	**2,073**	1,850	–	1,850
Miscellaneous		**415**	–	**415**	516	–	516
		7,362	–	**7,362**	10,301	–	10,301
total income		**46,051**	–	**46,051**	44,859	–	44,859
Expenses	2	**(4,974)**	–	**(4,974)**	(4,182)	–	(4,182)
Realised gains on investments	7	–	**100,618**	**100,618**	–	85,687	85,687
Increase in unrealised appreciation	7	–	**56,375**	**56,375**	–	78,190	78,190
Foreign exchange losses		–	**(983)**	**(983)**	–	(429)	(429)
net return before interest payable and taxation		**41,077**	**156,010**	**197,087**	40,677	163,448	204,125
Interest payable	3	**(1,164)**	–	**(1,164)**	(1,292)	–	(1,292)
return before taxation		**39,913**	**156,010**	**195,923**	39,385	163,448	202,833
Taxation	4	**(4,682)**	–	**(4,682)**	(5,322)	–	(5,322)
return after taxation		**35,231**	**156,010**	**191,241**	34,063	163,448	197,511
Minority interest – equity		**(426)**	**258**	**(168)**	(503)	(155)	(658)
		34,805	**156,268**	**191,073**	33,560	163,293	196,853
Dividends on preference stock – non-equity	5	**(97)**	–	**(97)**	(83)	–	(83)
return attributable to equity stockholders		**34,708**	**156,268**	**190,976**	33,477	163,293	196,770
Dividends on ordinary stock – equity	5	**(32,508)**	–	**(32,508)**	(31,500)	–	(31,500)
Transfer to reserves		**2,200**	**156,268**	**158,468**	1,977	163,293	165,270
		Earnings	**Capital**	**Total**	Earnings	Capital	Total
return per ordinary stock unit	6	**68.87p**	**310.05p**	**378.92p**	66.42p	324.00p	390.42p

The revenue column of this statement is the profit and loss account of the Group.

company statement of total return

for the year ended 31 january 2000

	Notes	2000 Revenue £000	2000 Capital £000	2000 Total £000	1999 Revenue £000	1999 Capital £000	1999 Total £000
investment income	1						
UK dividends		23,989	–	23,989	15,135	–	15,135
Dividends from subsidiary		1,275	–	1,275	1,275	–	1,275
UK scrip dividends		–	–	–	729	–	729
Foreign income dividends		321	–	321	6,247	–	6,247
		25,585	–	25,585	23,386	–	23,386
UK interest		291	–	291	207	–	207
Overseas dividends		12,338	–	12,338	10,425	–	10,425
Overseas scrip dividends		109	–	109	32	–	32
Overseas interest		16	–	16	33	–	33
Mineral rights income		196	–	196	295	–	295
		38,535	–	38,535	34,378	–	34,378
other income							
Deposit interest		2,772	–	2,772	5,694	–	5,694
Miscellaneous		4	–	4	52	–	52
		2,776	–	2,776	5,746	–	5,746
total income		41,311	–	41,311	40,124	–	40,124
Expenses	2	(2,502)	–	(2,502)	(2,276)	–	(2,276)
Realised gains on investments	7	–	100,519	100,519	–	85,687	85,687
Increase in unrealised appreciation	7	–	56,736	56,736	–	78,270	78,270
Foreign exchange losses		–	(983)	(983)	–	(429)	(429)
net return before interest payable and taxation		38,809	156,272	195,081	37,848	163,528	201,376
Interest payable	3	(80)	–	(80)	(77)	–	(77)
return before taxation		38,729	156,272	195,001	37,771	163,528	201,299
Taxation	4	(3,928)	–	(3,928)	(4,446)	–	(4,446)
return after taxation		34,801	156,272	191,073	33,325	163,528	196,853
Dividends on preference stock – non-equity	5	(97)	–	(97)	(83)	–	(83)
return attributable to equity stockholders		34,704	156,272	190,976	33,242	163,528	196,770
Dividends on ordinary stock – equity	5	(32,508)	–	(32,508)	(31,500)	–	(31,500)
Transfer to reserves		2,196	156,272	158,468	1,742	163,528	165,270
		Earnings	Capital	Total	Earnings	Capital	Total
return per ordinary stock unit	6	68.86p	310.06p	378.92p	65.95p	324.47p	390.42p

The revenue column of this statement is the profit and loss account of the Company.

balance sheets

of the group and of the company as at 31 january 2000

	Notes	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
fixed assets	7				
Office premises		**622**	622	**622**	622
Investments		**1,863,560**	1,650,660	**1,872,019**	1,650,957
		1,864,182	1,651,282	**1,872,641**	1,651,579
current assets					
Debtors	9	**29,899**	13,976	**24,224**	9,981
Bank deposits		**66,006**	131,026	**30,889**	99,486
Cash at bank and in hand		**9,778**	1,154	**1,471**	1,338
		105,683	146,156	**56,584**	110,805
creditors: amounts falling due within one year	10	**(71,936)**	(60,220)	**(40,872)**	(32,499)
net current assets		**33,747**	85,936	**15,712**	78,306
total assets less current liabilities		**1,897,929**	1,737,218	**1,888,353**	1,729,885
creditors: amounts falling due after more than one year					
4½% debenture stock 1956 or after – repayable at the Company's option		**1,648**	1,648	**1,648**	1,648
minority interest – equity		**9,576**	7,333	**–**	–
		11,224	8,981	**1,648**	1,648
capital and reserves					
Called-up share capital	5	**14,800**	14,800	**14,800**	14,800
other reserves					
Capital reserve – realised	11	**848,050**	748,440	**846,751**	747,215
Capital reserve – unrealised	11	**984,994**	928,336	**1,000,967**	944,231
Revenue reserve	11	**38,861**	36,661	**24,187**	21,991
total stockholders' funds		**1,886,705**	1,728,237	**1,886,705**	1,728,237
		1,897,929	1,737,218	**1,888,353**	1,729,885
total stockholders' funds are attributable to:					
Equity stockholders	12	**1,884,505**	1,726,037	**1,884,505**	1,726,037
Non-equity stockholders	12	**2,200**	2,200	**2,200**	2,200
		1,886,705	1,728,237	**1,886,705**	1,728,237
net asset value per ordinary stock unit	6	**£37.39**	£34.25	**£37.39**	£34.25

The financial statements on pages 29 to 40 were approved by the Board on 13 March 2000 and were signed on its behalf by:

Bruce W M Johnston, Director

Gavin R Suggett, Director

cash flow statements

of the group and of the company for the year ended 31 january 2000

	Notes	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
operating activities					
Investment income received		**40,103**	33,919	**38,653**	33,203
Deposit interest received		**3,927**	7,172	**3,232**	5,307
Underwriting commission received		**4**	52	**4**	52
Savings and pension products charges		**2,073**	1,891	**–**	–
Miscellaneous income received		**420**	472	**–**	–
Net (increase)decrease in advances		**(1,000)**	345	**–**	–
Net amounts received from depositors		**6,311**	5,737	**–**	–
Expenses		**(4,837)**	(4,098)	**(2,466)**	(2,224)
net cash inflow from operating activities	13	**47,001**	45,490	**39,423**	36,338
servicing of finance					
Interest paid		**(1,164)**	(1,292)	**(80)**	(77)
Dividends paid on preference stocks		**(97)**	(68)	**(97)**	(68)
Dividends paid to minority interests		**(425)**	(425)	**–**	–
net cash outflow from servicing of finance		**(1,686)**	(1,785)	**(177)**	(145)
taxation paid		**(3,246)**	(7,128)	**(2,422)**	(6,305)
capital expenditure		**–**	(8)	**–**	(8)
investing activities					
Purchase of investments		**(278,607)**	(204,581)	**(277,704)**	(198,210)
Disposal of investments		**211,133**	205,981	**202,907**	199,906
net cash (outflow)inflow from investing activities		**(67,474)**	1,400	**(74,797)**	1,696
equity dividends paid		**(32,508)**	(31,500)	**(32,508)**	(31,500)
net cash (outflow)inflow before management of liquid resources and financing		**(57,913)**	6,469	**(70,481)**	76
management of liquid resources					
Cash uplifted from(placed on) short term deposits	15	**64,037**	(6,889)	**67,614**	346
		6,124	(420)	**(2,867)**	422
financing					
Capital subscribed by minority shareholder		**2,500**	–	**–**	–
Loan from Alliance Trust (Finance) Limited		**–**	–	**3,000**	–
increase(decrease) in cash	14	**8,624**	(420)	**133**	422

notes to the financial statements

for the year ended 31 january 2000

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
1. investment income				
Listed UK	**25,948**	23,683	**24,519**	22,228
Unlisted UK	**82**	90	**1,357**	1,365
Listed overseas	**12,463**	10,490	**12,463**	10,490
Unlisted overseas	**196**	295	**196**	295
	38,689	34,558	**38,535**	34,378
2. expenses				
Directors' remuneration	**308**	282	**292**	268
Staff salaries	**1,752**	1,467	**849**	722
Social security costs	**176**	145	**101**	85
Pension contributions	**550**	456	**280**	248
Remuneration of auditor and associates				
– audit	**25**	27	**15**	17
– other services	**21**	3	**2**	–
Other	**2,142**	1,802	**963**	936
	4,974	4,182	**2,502**	2,276

Details of directors' remuneration are given on pages 22 to 24. The Group employs 77 (73) full time and 18 (18) part time staff, excluding directors. Staff costs are shared with The Second Alliance Trust PLC. There are no bonus or share option schemes for staff or directors. The management and administration expenses of the Company amounted to £2,502,000 (£2,276,000) representing 0.13% (0.13%) of total assets less current liabilities of £1,888,353,000 (£1,729,885,000).

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
3. interest payable – all charged to revenue				
On deposits and overdrafts repayable within 5 years not by instalments	**1,090**	1,218	**6**	3
On debentures repayable wholly or partly in more than 5 years	**74**	74	**74**	74
	1,164	1,292	**80**	77
4. taxation – all charged to revenue				
UK corporation tax at 30.16% (31.00%)	**4,682**	5,322	**3,928**	4,446
Overseas taxation	**1,653**	1,445	**1,653**	1,445
	6,335	6,767	**5,581**	5,891
Relief for overseas taxation	**(1,653)**	(1,445)	**(1,653)**	(1,445)
	4,682	5,322	**3,928**	4,446

notes to the financial statements

for the year ended 31 january 2000

5. called up share capital and dividends

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		Dividends	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
non-equity stock				
Preference Stocks				
4¼% cumulative preference stock	**700**	700	**30**	25
4% cumulative preference stock	**650**	650	**26**	22
5% cumulative preference stock	**750**	750	**37**	32
4% 'A' cumulative preference stock	**100**	100	**4**	4
			97	83
equity stock units				
Ordinary Stock				
50,400,000 ordinary stock units of 25p each	**12,600**	12,600		
Interim dividend paid of 24.0p (22.0p) per stock unit			**12,096**	11,088
Second interim dividend payable of nil (16.0p) per stock unit			**–**	8,064
Proposed final dividend of 40.5p (24.5p) per stock unit			**20,412**	12,348
	14,800	14,800	**32,508**	31,500

Provision has been made in these financial statements for the dividends on the Company's preference stocks, which will be payable on 2 May 2000. Following the abolition of advance corporation tax with effect from 6 April 1999, dividends on these stocks are paid at the original gross rate and carry a tax credit at the rate of 10% of the gross dividend.

	Group		Company	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
6. return and net asset value per ordinary stock unit				
Earnings	**34,708**	33,477	**34,704**	33,242
Capital	**156,268**	163,293	**156,272**	163,528
Total	**190,976**	196,770	**190,976**	196,770
Equity stockholders' funds	**1,884,505**	1,726,037	**1,884,505**	1,726,037

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

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

for the year ended 31 january 2000

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
7. fixed assets				
office premises				
freehold/heritable property				
Opening valuation	**622**	614	**622**	614
Additions during year	**–**	8	**–**	8
	622	622	**622**	622

The historical cost of the office premises is £292,000 (£292,000).

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
investments				
Investments listed on a recognised investment exchange	**1,859,913**	1,646,606	**1,839,642**	1,624,903
Unlisted investments	**3,647**	4,054	**3,647**	4,054
Subsidiary companies (note 8)	**–**	–	**28,730**	22,000
	1,863,560	1,650,660	**1,872,019**	1,650,957

	Group Investments £000	Company Investments £000	Company Subsidiary £000	Company Total £000
Opening book cost	**722,419**	**701,657**	**5,400**	**707,057**
Opening unrealised appreciation	**928,241**	**927,300**	**16,600**	**943,900**
Opening valuation	**1,650,660**	**1,628,957**	**22,000**	**1,650,957**
Movements in the year				
Amortisation	**(577)**	**–**	**–**	**–**
Purchases at cost	**283,220**	**274,817**	**7,500**	**282,317**
Sales – proceeds	**(226,736)**	**(218,510)**	**–**	**(218,510)**
– realised gains on sales	**100,618**	**100,519**	**–**	**100,519**
Increase(decrease) in unrealised appreciation	**56,375**	**57,506**	**(770)**	**56,736**
Closing valuation	**1,863,560**	**1,843,289**	**28,730**	**1,872,019**
Closing book cost	**878,945**	**858,483**	**12,900**	**871,383**
Closing unrealised appreciation	**984,615**	**984,806**	**15,830**	**1,000,636**
Closing valuation	**1,863,560**	**1,843,289**	**28,730**	**1,872,019**

A geographical analysis of the investment portfolio by broad industrial or commercial sector is given on page 14. A list of the ten largest investments in the portfolio is given on page 15.

notes to the financial statements

for the year ended 31 january 2000

8. subsidiary companies

The Company has the following subsidiary companies which are all incorporated in Scotland and operate in the United Kingdom. All of these companies are consolidated in the Group accounts.

Name	Description of shares held	Principal activity
Alliance Trust Savings Limited (ATS)	Ordinary	Deposit taking, provision and administration of savings products
Alliance Trust (Finance) Limited (ATF)	Ordinary	Leasing administration (as agent)
Alliance Trust Leasing Limited (ATL)	Ordinary	Leasing administration (as principal and agent)

The Company owns 75% of ATS and ATF with the remaining 25% of each owned by The Second Alliance Trust PLC. ATF owns 100% of ATL.

subsidiary companies' valuation

The investment in subsidiary companies is valued in the Company's accounts at £28,730,000 (£22,000,000) being the net asset value of the Company's equity interests taking into account the Government securities at market value. At 31 January 1999 ATF owned 100% of ATS. During the year ATF and ATS became separate subsidiaries of the Company but for the purposes of the summarised balance sheet below they have been aggregated to aid comparison.

	2000	**1999**
	£000	£000
Government securities	**20,271**	21,702
Money at call and short notice	**43,425**	31,355
Loans to parent companies	**16,000**	12,000
	79,696	65,057
Financed by:		
Amounts due to depositors	**39,003**	34,001
Creditors less debtors	**2,387**	1,723
	41,390	35,724
Shareholders' funds	**38,306**	29,333
	79,696	65,057

The reports and accounts of all subsidiary companies are delivered to the Registrar of Companies in Edinburgh.

notes to the financial statements

for the year ended 31 january 2000

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
9. debtors				
Amounts due from brokers	**19,760**	4,157	**19,760**	4,157
Loan to The Second Alliance Trust PLC (Note 18)	**4,000**	3,000	**–**	–
Taxation recoverable	**1,786**	2,411	**1,786**	2,411
Prepayments and accrued income	**4,277**	4,279	**2,663**	3,353
Other debtors	**76**	129	**15**	60
	29,899	13,976	**24,224**	9,981

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
10. creditors: amounts falling due within one year				
Amounts due to depositors	**39,003**	34,001	**–**	–
Amounts due to brokers	**7,037**	2,533	**7,037**	2,533
UK corporation tax payable	**1,431**	620	**1,157**	276
Loan from ATF (Note 18)	**–**	–	**12,000**	9,000
Proposed dividends	**20,461**	20,461	**20,461**	20,461
Other creditors	**4,004**	2,605	**217**	229
	71,936	60,220	**40,872**	32,499

	Group Capital reserve realised £000	Group Capital reserve unrealised £000	Group Revenue reserve £000	Company Capital reserve realised £000	Company Capital reserve unrealised £000	Company Revenue reserve £000
11. reserves						
Beginning of year	**748,440**	**928,336**	**36,661**	**747,215**	**944,231**	**21,991**
Exchange differences	**(983)**	**–**	**–**	**(983)**	**–**	**–**
Net gain on realisation of investments	**100,618**	**–**	**–**	**100,519**	**–**	**–**
Increase in unrealised appreciation	**–**	**56,375**	**–**	**–**	**56,736**	**–**
Minority interest	**(25)**	**283**	**–**	**–**	**–**	**–**
Retained net revenue for the year	**–**	**–**	**2,200**	**–**	**–**	**2,196**
End of year	**848,050**	**984,994**	**38,861**	**846,751**	**1,000,967**	**24,187**

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
12. reconciliation of movements in stockholders' funds				
Opening equity stockholders' funds	**1,726,037**	1,560,767	**1,726,037**	1,560,767
Total recognised gains and losses	**158,468**	165,270	**158,468**	165,270
Closing equity stockholders' funds	**1,884,505**	1,726,037	**1,884,505**	1,726,037
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

for the year ended 31 january 2000

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
13. *reconciliation of net revenue before interest and tax to net cash inflow from operating activities*				
Net revenue before interest payable and taxation	**41,077**	40,677	**38,809**	37,848
Scrip dividends	**(109)**	(761)	**(109)**	(761)
Amortisation – non-cash adjustment	**577**	372	**–**	–
Decrease(increase) in accrued income	**2**	(1,174)	**690**	(796)
Increase(decrease) in other creditors	**1,399**	540	**(12)**	96
Movements in loans and advances	**(1,000)**	–	**–**	–
Decrease(increase) in other debtors	**53**	920	**45**	(49)
Increase in amounts due to depositors	**5,002**	4,916	**–**	–
Net cash inflow from operating activities	**47,001**	45,490	**39,423**	36,338

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
14. reconciliation of net cash flow to movement in net funds				
Increase(decrease) in cash in the year	**8,624**	(420)	**133**	422
Cash (uplifted from)placed on short term deposits	**(64,037)**	6,889	**(67,614)**	(346)
Loan advanced by ATF	**–**	–	**(3,000)**	–
Foreign exchange losses	**(983)**	(429)	**(983)**	(429)
Movement in net funds in year	**(56,396)**	6,040	**(71,464)**	(353)
Net funds at start of year	**130,532**	124,492	**90,176**	90,529
Net funds at end of year (Note 15)	**74,136**	130,532	**18,712**	90,176

	1999 £000	Cash flows £000	Exchange losses £000	2000 £000
15. analysis of change in net funds				
Group				
Cash at bank and in hand	1,154	**8,624**	**–**	**9,778**
Bank deposits	131,026	**(64,037)**	**(983)**	**66,006**
Debenture Stock	(1,648)	**–**	**–**	**(1,648)**
	130,532	**(55,413)**	**(983)**	**74,136**
Company				
Cash at bank and in hand	1,338	**133**	**–**	**1,471**
Bank deposits	99,486	**(67,614)**	**(983)**	**30,889**
Debenture Stock	(1,648)	**–**	**–**	**(1,648)**
Loan from ATF	(9,000)	**(3,000)**	**–**	**(12,000)**
	90,176	**(70,481)**	**(983)**	**18,712**

notes to the financial statements

for the year ended 31 january 2000

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
16. contingencies, guarantees and *financial commitments*				
Contingencies, guarantees and financial commitments of the Group and the Company at the year end, which have not been accrued, are as follows:				
Guarantees to third parties	44	71	–	–
	44	71	–	–

17. pension scheme

The Group, in conjunction with The Second Alliance Trust PLC, operates an insured defined benefits pension scheme which is separately funded. The scheme is administered externally on behalf of the trustees.

The pension cost charged to the Group accounts of £550,000 (£456,000) was paid during the year, and included £18,000 (£14,000) in respect of permanent health insurance premiums.

The pension scheme funding rate is determined, at intervals not exceeding three years, on the recommendation of a qualified actuary. The latest actuarial valuation report is dated September 1997 and relates to service by members up to 31 March 1997. The report was produced using the projected unit method of funding, made allowance for the removal of tax credits, and assumed that investment returns would exceed salary progression by 0.5% pa. This report showed assets valued at £4,825,000, a surplus of £580,000 and recommended the funding rate of 27.3% of pensionable salaries as from 1 April 1997, which excludes the cost of permanent health insurance premiums.

18. related parties

The affairs of the Alliance Trust Group are managed in conjunction with those of the Second Alliance Trust Group. Although neither parent company is 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 they 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 Group after allowing for a contribution from ATS and the ATF Group, and reflects the respective sizes of the companies. During the year to 31 January 2000 The Second Alliance Trust PLC paid a contribution of £376,000 (£318,000). The minority interest shareholding in ATF and ATS is held by The Second Alliance Trust PLC. ATF has advanced interest free loans of £12,000,000 (£9,000,000)and £4,000,000 (£3,000,000) to the Company and to The Second Alliance Trust PLC, respectively. The terms of these loans have been extended and they are repayable in September 2000, or earlier, by mutual agreement, at three months' notice. Second Alliance Leasing Limited (SAL), a subsidiary of The Second Alliance Trust PLC, has a deposit facility with ATS, the balance being £248,000 due to SAL (£nil).

19. derivatives and other financial instruments

The directors' report details the Company's approach to investment risk management on page 27 and the accounting policies on page 29 explain the basis on which currencies and investments are valued for accounting purposes.

An analysis by currency of the net current assets is included in the classification of investments on page 14.

No derivatives were used, and no significant short term borrowings were drawn down during the year to 31 January 2000. The £3,848,000 (£3,848,000) of fixed rate debenture stock and preference stocks which have no fixed maturity or redemption dates was outstanding throughout the year. Their market value at 31 January was £3,119,000, (£3,404,000) a discount to book value of the equivalent of 1.5p (1.0p) per ordinary stock unit.

report of the auditor to the members of The Alliance Trust PLC

We have audited the financial statements on pages 29 to 40.

respective responsibilities of the directors and the auditor

The directors are responsible for preparing the Annual Report. As described on page 26, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, 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 are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 26 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, 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 risks and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, 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. 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 given reasonable assurance that the financial statements 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.

opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 January 2000 and of the return of the Group and the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Saltire Court

Edinburgh

13 March 2000

notice

The One Hundred and Twelfth Annual General Meeting of The Alliance Trust PLC will be held at 12.30pm on Friday 28 April 2000 at the registered office of the Company, Meadow House, 64 Reform Street, Dundee DD1 1TJ.

The business to be transacted at the AGM is as follows. All resolutions will be proposed as Ordinary Resolutions. An explanation is given below and on the next page.

ordinary business

1. To receive and consider the Report of the Directors and the Accounts for the year ended 31 January 2000.
2. To declare dividends.
3. To re-elect Mr Bruce W M Johnston as a director.
4. To re-elect Mr Gavin R Suggett as a director.
5. To re-appoint KPMG Audit Plc as auditor of the Company.
6. To authorise the directors to agree the auditor's remuneration.

By order of the Board
Sheila M Ruckley
Sheila M Ruckley Secretary

Dundee, 21 March 2000

how to attend the agm and vote

If you hold ordinary stock in the Company which is registered in your own name, you are a member and no further formalities are required in order for you to attend and vote. If you cannot attend, you may use the enclosed proxy card to appoint someone else to attend and vote on your behalf. A proxy need not be a member of the Company.

If you hold your stock through another party, such as a stockbroker's nominee, whether you can attend and vote will depend on the terms of the contract you have with that other party. If such a service is provided for you, arrangements will require to be made with that party. This is usually done by the nominee completing a form of proxy.

If you are uncertain of your position, please contact the Company Secretarial department on 01382 201700.

stock held through ATS

If you hold your stock through one of the products provided by Alliance Trust Savings Limited (ATS) you will have been sent an Instruction Form unless you have told ATS that you do not wish to receive the report and accounts. If you wish to attend the meeting and/or vote on a poll on any of the resolutions you should complete this form. If you hold your stock through ATS and have not received an Instruction Form, but wish to have one please call 01382 201900.

time limits

In order to establish who is entitled to attend and vote at the meeting, the Company takes the entries on the register of members 48 hours before the meeting. Thus, changes to the register after **12.30pm on Wednesday 26 April 2000** are disregarded in establishing the right to attend and vote.

All forms of proxy must be received by the Company at Meadow House by **12.30pm on Wednesday 26 April 2000**.

what happens at the agm

Those persons whose ordinary stock is registered in their own names and who are present at the meeting may vote on each resolution on a show of hands. The business of the meeting is determined by a simple majority of those present and voting on a show of hands. The number of proxy votes received for each resolution is announced, but these are not taken into account in determining the resolution unless there is a demand for a poll (a count of all votes cast at the meeting and by proxy weighted in accordance with the size of the stockholding).

The directors are present to answer questions, and meet informally afterwards with those who have attended the meeting.

Those attending are also able to examine the service contracts of the directors and the register of directors' interests in the Company's stock and debentures. These documents are always available for inspection during normal business hours.

explanation of resolutions

resolution 1: report and accounts

The directors approved the report and the accounts at the Board meeting on Monday 13 March 2000. There is no statutory requirement for this document to be approved at the AGM, but it is good corporate governance practice for the stockholders to be asked to receive and consider the report and accounts.

resolution 2: dividends

Dividends on the Company's preference stocks will be declared. These stocks are listed on page 35 of the accounts in note 5. A final dividend of 40.5p per ordinary stock unit is recommended by the directors. The ordinary stockholders must approve this dividend before it can be paid.

resolutions 3 and 4: re-election of directors

The Board has resolved that each director should retire at least every three years at the AGM and, if eligible, stand for re-election.

This year, Bruce Johnston and Gavin Suggett both retire and submit themselves for re-election. Bruce Johnston is Chairman of the Company and a member of the audit and remuneration committees. He is a non-executive director and does not have a service contract with the Company. His biographical details are found on page 5. Gavin Suggett is chief executive and is responsible to the Board for all of the Company's operations. He has a service contract with the Company terminable on one year's notice. His biographical details are found on page 6.

The Board recommends that members vote in favour of the re-election of Bruce Johnston and Gavin Suggett.

resolution 5: re-election of the auditor

KPMG Audit Plc is the Company's auditor and has indicated its willingness to stand for re-appointment. The stockholders are asked to approve the re-appointment.

resolution 6: remuneration of the auditor

Consequent on appointment of the auditor by resolution 5, the directors request the stockholders' authority to agree the remuneration of the auditor.

financial calendar

final dividend and agm (year to 31 january 2000)	
Preliminary Announcement of final results	Monday 13 March 2000
Report and Accounts posted to stockholders	Tuesday 21 March 2000
Ex-dividend date	Monday 3 April 2000
Annual General Meeting	Friday 28 April 2000
Final dividend payment date	Tuesday 2 May 2000
interim dividend (year to 31 january 2001)	
Announcement date	Monday 14 August 2000
Interim Report posted to stockholders	Monday 21 August 2000
Ex-dividend date	Monday 29 August 2000
Interim dividend payment date	Friday 29 September 2000

dividend payments

If you hold stock in your own name on the register of members, you will receive your dividend directly by post to the address we have for you on the register. Alternatively, you may wish to instruct us to send your dividends by direct credit to your bank or building society account. To do this, please complete the mandate which is sent to you with your dividend, or which is available from the Company, and lodge it with our registrars.

Dividends may also be reinvested in further stock units through the Alliance Investment Plan. For information please contact ATS on 01382 201900.

income tax on dividends

Dividends paid by the Company now carry a tax credit at 10% of the gross dividend (being the net dividend plus the 10% tax credit). Those stockholders who, before 6 April 1999, were entitled to reclaim the tax credit may no longer do so. However, where the stock is held in a PEP or ISA, tax credits on dividends paid before 6 April 2004 may be reclaimed by the PEP or ISA manager. Individual UK taxpayers who are not liable to higher rate tax and who hold their stock outside a PEP or ISA incur no further income tax liability. Higher rate UK taxpayers, who hold their stock outside a PEP or ISA, are subject to income tax at 32.5% of the gross dividend, but are able to set the tax credit off against part of this liability so that in effect their net income in respect of the dividend is unaffected by the April 1999 changes. How this works is shown in the illustration below.

tax vouchers

If your dividends are paid directly to your registered address, or to your bank or building society, or they are sent to ATS for reinvestment through the Alliance Investment Plan, the tax voucher which you need for your tax records will be sent to your registered address.

ATS will automatically supply you with a consolidated tax voucher for all securities purchased and held in the Alliance Investment Plan, shortly after the end of each tax year.

If your dividends are received by another nominee, such as your stockbroker's nominee, you must contact that person for the tax voucher.

capital gains tax

For capital gains tax purposes, the market value of each 25p unit of the Company's ordinary stock at 31 March 1982 was £2.85. There have been no stock splits or other corporate events affecting the calculation of the increase in value of the Company's stock since that date.

No capital gains tax liability arises in respect of a disposal of the Company's stock sold while held within a PEP, ISA or Pension Plan.

stock price information

Information on the price of Alliance Trust stock may be obtained from the Financial Times Cityline Service on 0336 431570 or 0891 431570. Calls are charged at 50p per minute. Information is also available on BBC Ceefax (page 221). Prices are also available from the FT website http://www.ft.com

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 FREEPOST 22 London W16 7E2.

tax credit example	**PEP/ISA investor** £	**non-taxpayer** £	**standard rate taxpayer** £	**higher rate taxpayer** £
1998/1999 tax year				
Dividend	80.00	80.00	80.00	80.00
Tax recoverable (payable)	20.00	20.00	–	(20.00)
Net income after tax	100.00	100.00	80.00	60.00
1999/2000 tax year				
Dividend	80.00	80.00	80.00	80.00
Tax recoverable (payable)	8.89	–	–	(20.00)*
Net income after tax	88.89	80.00	80.00	60.00

*This is calculated as 32.5% on the gross dividend - £28.89 less the tax credit of £8.89

general enquiries

If you have a general enquiry about the Company, you may contact us at our registered office:

Meadow House
64 Reform Street
Dundee DD1 1TJ

Telephone 01382 201700 Facsimile 01382 225133

If you have an enquiry about your Alliance PEP, ISA, Investment Plan or Pension Plan please contact:

Alliance Trust Savings Limited
PO Box 164
Meadow House
64 Reform Street
Dundee DD1 9YP

Telephone 01382 201900 Facsimile 01382 202250

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

registrars

Change of address notifications for stockholdings registered in your own name should be sent to the Company's registrars. Please also contact our registrars if you wish dividends sent to your bank or building society account, or have any other general registration enquiries.

Computershare Services plc
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Telephone 0870 702 0010 Facsimile 0131 442 4924

incorporation

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

aitc investment trust forums 2000

The Company is a member of the Association of Investment Trust Companies. General information about investment trusts is available from the AITC at 3rd Floor, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY telephone 020 7282 5555, fax 020 7282 5556. We shall be participating once again in AITC forums for advisers and private investors which, are being held at the following locations. We extend a welcome to any stockholders who would like to come along to learn more about investment trusts and meet informally with representatives from the Board and the Company's management.

If you would like a ticket (free of charge) for any of these forums, please telephone the AITC on 020 7431 5222. Tickets are available on a first come, first served basis.

Date	Region	Venue
14 June 2000	Southampton	de Vere Grand Harbour Hotel
12 July 2000	Glasgow	Glasgow Thistle Hotel
8 November 2000	Bristol	Swallow Royal Hotel
7 December 2000	London	QEII Conference Centre

alliance trust savings limited (ATS)

ATS is the provider and administrator of the Alliance range of savings products. Our own staff and in-house systems are used in providing a comprehensive and cost-effective service through these products with flexibility based on:

- Cost-efficient investment in the Alliance Trust and the Second Alliance Trust.
- A broadly-based 'self-select' option - in over 370 individual equities, 170 investment trusts, gilts and corporate bonds.
- A low cost transaction based charging structure.
- Integrated reporting and valuations, where more than one ATS product is held.

alliance select isa

Individual savings accounts were introduced in April 1999. In any tax year, you may subscribe to only one maxi ISA. Alternatively, you may choose to invest in one or more of the designated mini ISA components. Mini ISAs may be 'stocks and shares', 'cash' or 'life assurance' and you may only invest in one of each in any tax year. The following tables show the options available in The Alliance Select ISA.

maxi isa subscriptions

Component	Year 1999/2000 Maximum £7,000	Year 2000/01 & After Maximum £5,000
Cash	Nil to £3,000	Nil to £1,000
Stocks and Shares	Balance up to £7,000	Balance up to £5,000

mini isa subscriptions

Component	Year 1999/2000 Maximum £7,000*	Year 2000/01 & After Maximum £5,000*
Cash	Nil to £3,000	Nil to £1,000
Stocks and Shares	Nil to £3,000	Nil to £3,000

**The remaining £1,000 of the annual subscription could be subscribed to an insurance component mini ISA. ATS does not provide such a component.*

The ISA regulations allow your full stocks and shares subscription to be invested in the Alliance Trust or the Second Alliance Trust in each tax year. Thus the composition of the portfolio within your ISA may be simple, based on Alliance or Second Alliance stock only, or more broad ranging, using the self select options.

alliance cat isa

ISAs may be provided to comply with the government guidelines for Charges, Access and Terms - referred to as 'CAT Standards'. ATS provides a CAT ISA which is the only CAT-qualifying investment trust ISA currently in the UK.

The Alliance CAT ISA is available as a maxi version ('stocks and shares' and 'cash' components) or a mini version ('stocks and shares' component only). The 'stocks and shares' investment selection is restricted to Alliance Trust stock only.

alliance investment plan

The Alliance Investment Plan combines the 'self-select' concept with all of the benefits associated with the traditional investment trust savings scheme.

Many investors elect to invest in the Alliance or Second Alliance Trust only. Others choose to use the scheme to build their own bespoke portfolio. In either case, the Plan provides a simple means of dividend reinvestment. The plan includes a CREST nominee service and a facility that provides easy access for transferring existing security holdings into the scheme.

The plan may be used by individual investors, as the cornerstone for financial plans for children and by trustees and pension schemes.

alliance pension plan

The Alliance Pension Plan is an Inland Revenue approved self-invested personal pension (SIPP), designed to provide a tax-effective and cost-efficient method of providing for pension benefits. Again, the Plan incorporates the self-select options that enhance the longer term flexibility for retirement planning.

The Plan is now available to the employed as well as the self employed.

alliance pep

The Alliance PEP provides investors with the opportunity to transfer existing holdings to ATS on very cost-effective terms. Alternatively, existing PEP securities may be sold and sale proceeds transferred and reinvested on a self select basis in a wide range of investments.

The Alliance PEP remains one of the most successful self-select PEPs on the market. With the breadth of choice on offer - and the highly competitive charging structure - the Alliance PEP is often seen as the preferred vehicle for amalgamating a number of past years' PEPs into one highly cost-effective plan.

The benefit of fixed transaction charges (as opposed to percentage-based annual charges) becomes more essential as a PEP grows over the years. Percentage charges become increasingly significant (in real terms) as the value of the PEP portfolio increases.

Investors may use the wide choice of investment trusts and individual shares available in the ATS self-select options to 'reshape' their entire PEP portfolio. ATS will provide regular consolidated statements and valuations, detailing a complete PEP holding, in one simple format.

Since April 1999, no new subscriptions have been permitted into personal equity plans (PEPs). Existing PEPs have been 'ringfenced' (ie, the PEP investments can continue to grow tax-free for the investor).

further information

For more information please telephone on 01382 201900 or complete the enclosed reply paid card.

performance figures

The figures below show the value of £100 per month or a lump sum of £1,000 invested in the Alliance Trust, using the Alliance Investment Plan.

Results after	**10 years**	**7 years**	**5 years**	**3 years**	**1 year**
The Alliance Trust (£100 per month)	*£23,744*	*£12,800*	*£8,012*	*£4,107*	*£1,167*
The Alliance Trust (£1,000 lump sum)	£3,502	£2,143	£1,936	£1,359	£1,041

Source: Alliance Trust Savings Limited. All figures to 1 February 2000. Figures assume net income is reinvested and no additional tax is payable on dividends received and allow for all expenses of investing through the Alliance Investment Plan.

All products are provided on a direct offer transaction basis, and marketed to UK investors only, by Alliance Trust Savings Limited, PO Box 164, Meadow House, 64 Reform Street, Dundee DD1 9YP Telephone 01382 201900. For security and compliance monitoring purposes telephone calls may be recorded. ATS is an authorised institution under the Banking Act 1987 and is regulated by the Personal Investment Authority for investment business. ATS DOES NOT GIVE ADVICE AND YOU SHOULD OBTAIN EXPERT ADVICE. Most charges are transaction based and may be high or low depending on how you manage the investments in your plans. The value of investments and any income from them may go down as well as up and you may not get back the amount you put in. Past performance is no guarantee of future returns. Tax relief may be altered by future legislation.