# The Alliance Trust PLC

SC 1731

## Report & Accounts

for the year ended 31 January 2006

SCT SSRPBFVL 0405
COMPANIES HOUSE 31/05/06

The Alliance Trust PLC

# Objective and investment policy

## The Alliance Trust is a self-managed investment company with investment trust status. The Alliance Trust has the objective of being a core investment for investors seeking a long term store of increasing value.

We allocate our capital across a broad range of asset classes to enhance and preserve total returns and to provide shareholders with real growth over the medium to long term. The Company can use investment techniques such as gearing and hedging to enhance returns and reduce risks within its portfolio. We do not benchmark against any equity index as we retain the freedom to move not only between equity markets as opportunities arise but also to invest in other asset classes.

We pursue our objective by:

- investing in quoted and unquoted equities across the globe in different sectors and industries;
- investing internationally in preference shares and in debt securities including government and corporate bonds;
- investing in other assets, including property, cash and other financial instruments and investment vehicles;
- retaining the ability to borrow, from time to time, and thereby to gear our portfolio; and
- investing in subsidiary and associated businesses which allows us to expand into other related activities with the objective of enhancing shareholder value.

# Contents

# Company Financial Highlights



- **Net Asset Value** up 24.6% from £1,634.7m* to **£2,037.2m**
- **Capital Growth** of **£395.5m** against £146.7m in previous year
- **Income** of **£54.5m** up 14.8%
- **Total Shareholder Return** of **30.6%**†
- **Dividend** for the year increased for 39th consecutive year to **73.5p** against 71.75p in 2005

## Financial Summary

| One year analysis | per ordinary share 31 January 2006 | 31 January 2005* | Change |
|---|---|---|---|
| Dividend for the year | **73.50p** | 71.75p | 2.4% |
| Net asset value | **4042.0p** | 3,243.0p | 24.6% |
| Share price† | **3490.0p** | 2,741.0p | 27.3% |
| **Return** | | | |
| Earnings | **86.95p** | 74.98p | |
| Capital | **784.71p** | 291.21p | |
| Total | **871.66p** | 366.19p | |
| Discount§ | **13.66%** | 15.48% | |
| Total expense ratio** | **0.32%** | 0.32% | |

| One and ten year analysis | 1 year absolute | 10 years absolute | 10 years compound |
|---|---|---|---|
| **Returns** | | | |
| Total shareholder return†• | **30.6%** | 116.2% | 8.0% |
| **Growth** | | | |
| Earnings | **16.0%** | 54.4% | 4.4% |
| Dividend | **2.4%** | 38.7% | 3.3% |
| Net asset value | **24.6%** | 66.5% | 5.2% |

† Source: Thomson Financial Datastream.

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

** Total expenses divided by year end net asset value.

• Total shareholder return shows the theoretical growth in value over one and ten years, assuming that gross dividends are fully reinvested, and ignoring re-investment charges.

* Restated for IFRS.

I am pleased to report that this has been a successful year for your Company. The net asset value increased 24.6%, the share price increased 27.3% and, on a total return basis, your Company's shares returned 30.6%.

The Directors recommend payment of a final dividend of 37p per share, which makes a total dividend for the year of 73.5p per share, an increase of 1.75p per share. This is the 39th consecutive year of an increase in dividend.

## Performance and Outlook

The results for the last year reflect the strong performance across the portfolio.

We continued to build upon the strength of our dedicated in-house investment team with the opening of our Hong Kong office earlier in the year. We have already seen the benefit of this investment in the improved performance of our capital managed out of Hong Kong and therefore in increased returns for shareholders. We are looking at ways to develop an Asian asset management business based around this team.

During periods when stock markets perform very strongly, historically we have lagged the market because of minimal gearing and our focus on risk management. Over the last year we geared modestly, ending the year with gearing of 2.7% of net assets, and have remained very focussed on risk, but I am pleased to report that we have been able to increase returns and outperform. The re-alignment of the portfolios onto a geographic basis, coupled with the formal asset allocation process through the Asset, Liability and Income Committee (ALICo), has sharpened our ability to achieve these results without diminishing our cautious approach to risk.

The discount at which your Company's shares trade relative to net asset value has narrowed from 15.5% at the start of the period to 13.7% as at the year end.

## Total Expense Ratio ('TER')

We continue to maintain a prudent approach to costs, but, as we explained last year, we are continuing to invest in our staff and to upgrade and update our systems. This has resulted in an increase in total expenses, but the growth in our capital has meant that the total expense ratio for the year to 31 January 2006 remained at 0.32%

The considerable investment in systems will support the investment process. Modern research, execution and performance information systems are critical in helping to reduce operational risk in the investment process as well as to recruit and retain top quality staff.

The investment in staff and systems will be concentrated over the short to medium term horizons and the directors remain committed to ensuring that your Company's expense ratio remains in the bottom quartile relative to our peer group.

The company has a staff and cost sharing arrangement with The Second Alliance Trust PLC which benefits both companies and without which the

From left to right:

Lesley Knox, Chairman

Meadow House, Dundee

One International Finance Centre, Hong Kong

Alliance Trust Savings, London

Company would not be able to maintain its very low expense ratio.

## Alliance Trusts Savings

We have also, together with the Second Alliance Trust, continued to invest in Alliance Trust Savings. This investment has been made to undertake a major overhaul of its systems to meet customers' demands and to acquire Wolanski & Co. Trustees Limited, a specialist pension administrator. The acquisition brings additional expertise and customers, as well as a new set of relationships with intermediaries. Alliance Trust Savings is very well positioned to develop into one of the leading providers of retail investment services and self-select investment dealing services, and to become the leading provider of self-invested personal pensions. Alliance Trust Savings has the potential to be a source of long term earnings growth which will enhance returns for shareholders and we are continually seeking out ways to operate and grow the business more efficiently.

## Events

Our Investor Forums are an important feature in communicating in person with our shareholders and we remain committed to this programme. During the year we visited Bristol, Dunblane and Brands Hatch as well as participating in meetings run by the AITC. We enjoy the feedback and dialogue we have during these meetings and we encourage you to join us at one of the forums planned for the coming year. Details of these will be published on our website.

## Constitutional and Board Matters

William Berry, who had been a director since 1994, retired at the close of the 2005 AGM. I should like to thank William for his service to the Company during his time in office and express appreciation of his commitment to, and deep knowledge of, the Company. Latterly, William was the Senior Independent Director and on his retirement the board elected William Jack, who joined the board in 2000, to fill that role.

Under our constitution, we are required to have a majority of non-executive directors on the board and I am pleased to inform you that following William's retirement Clare Salmon was appointed a director. She brings wide experience of both marketing and financial services. Her appointment falls to be approved by shareholders at the Annual General Meeting on 10 May 2006, at which Christopher Masters and David Deards will also be standing for re-election.

Alan Young, who has been in the Company since 1986 and a director since 1992, will be retiring in September 2006. Although this is six months away I should like to take this opportunity to thank him for his contribution to the Company and to the board. His will be a hard act to follow and we will be announcing his successor in due course.

We last reviewed our board fees some three years ago and, having taken independent advice on the appropriate structure and level of such fees, the resolutions at the AGM include a proposed new maximum aggregate amount of fees.

## Annual General Meeting

In view of the steadily increasing numbers of attendees, this year the AGM is being held at the Apex Hotel, Dundee. As always, I look forward to seeing many of you at the AGM and to hearing your views about the Company.

**During the year the Company delivered strong investment performance, growing its net assets by a record £402m.**

Last year, I reported to you on our plans to develop the Alliance Trust, both as a core investment for those seeking a long term store of increasing value and as an organisation investing in its own banking and financial services company.

I am pleased to report to you on the results of the past year.

## Asset Allocation and Performance

Over 18 months ago we set up our Asset, Liability and Income Committee ('ALICo') which manages the capital of the Company within the investment and asset allocation strategies agreed with the board of directors. ALICo also considers and judges the merits, timing and risks of gearing, and of hedging other exposures such as foreign currencies.

Equities remain our key area of focus and we have now had a full year of managing the equity portfolio on a country or regional basis, with the relevant investment managers supported by regional and global analysts.

I am encouraged that, within the equity portfolio and as at the year end, six out of the seven regional portfolios have outperformed their local benchmarks. This represented 95% of the value within the equity portfolio. On the equity portfolio as a whole we achieved a return of 25.8% on capital invested.

Early in the year we took a relatively cautious stance, conscious of the uncertainties in the oil market and those emanating from terrorist threats. As it became clear that governments and markets were able to accommodate the inflationary pressures of higher commodity prices we again increased our exposure to equities in certain regions and sectors. In the light of increased confidence, we geared the portfolio by a modest 2.7% of net assets to take advantage of the current strength of markets and as a partial hedge to our exposure to the US dollar. We will consider further gearing, at an appropriate pace and level, to increase returns or offset exchange risk.

One of the best performing parts of the portfolio was that managed from our office in Hong Kong, with a performance of 36.0% against the local benchmark of 32.4% for Asia-Pacific and 51.6% against the local benchmark of 41.4% for Japan. We have an excellent team in Hong Kong, headed up by Anthony Muh, which has shown clear ability to outperform and manage risk in this volatile part of the world. We are building on this expertise and potential to generate earnings in this area by establishing an asset management company which will operate out of the Hong Kong office and take third party

From left to right:

Alan Harden, Chief Executive

Hyman Wolanski, Head of Pensions

Anthony Muh, Head of Asia

mandates. By leveraging our existing expertise and resource we will seek to generate additional returns for shareholders.

We do not benchmark the total portfolio against any index and we retain the freedom to move between equity markets and to invest in other assets. This year we invested £20.8m in real estate, and have now, within the property portfolio, two prime properties, both with a good long term income stream and capital growth potential. This investment marked the beginning of a specialisation which we intend to nurture and a property portfolio to which we intend to add as opportunities arise. Our real estate including oil/mineral rights appreciated by 18.3% from £24m to £28.4m.

## Financial Services Subsidiary

Our investment policy allows for allocation of capital to subsidiary companies and this year we increased our investment in Alliance Trust Savings, convinced of the potential to provide pensions, share dealing services, deposit facilities and investment wrappers to its customers.

During the year, Alliance Trust Savings purchased Wolanski & Co. Trustees Limited, one of the leading self-invested personal pension ('SIPP') and small self-administered scheme administrators in the market. Hyman Wolanski joined us as Head of Pensions in ATS, which, after the purchase, has a total of around £3.3bn of assets under administration and by plans administered is one of the top five SIPP providers in the UK. Pensions 'A' Day, now only a short time away, provides tremendous opportunity of which we will take advantage both in the individual pensions market and in the corporate SIPP and other employer based pensions market.

## Investment in resources and people

We are in the midst of implementing a programme for the modernisation of all our technology, administration and operations. This programme is being put into place both for our investment company and for Alliance Trust Savings.

We are also investing for the future in ensuring that we have the right skill sets and expertise within our staff. In the investment area we will be adding additional expertise in portfolio risk and quantitative analysis, and we are building more capability in dedicated private equity and fixed income areas to strengthen our ability to allocate capital and manage risk in these areas. Investment managers will be given the tools needed for optimum performance and their expertise, which is managed within our transparent investment framework, will be built upon to provide future growth and returns to shareholders.

We are proud of our company and our staff and we are committed to increasing the positive momentum going forward. In the coming year we will:

- Further strengthen our asset allocation process.
- Provide the investment tools needed for optimum performance.
- Leverage our investment expertise and risk management skills to ensure even greater benefits to shareholders.
- Complete the integration of Wolanski & Co. Trustees with Alliance Trust Savings to create a leading UK pensions business that offers a full and attractive range suitable for individuals and companies.
- Put in place modern, efficient technology systems across the whole organisation.

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

### Total Return

The Company builds value for its shareholders with a combination of capital growth and the income generated on that capital.

For the year to 31 January 2006, the earnings per share were a record 86.95p (74.98p) and the capital return was 784.71p (291.21p).

### Company Revenue

Income received on the Company's investments rose by £7m to £54.5m. Of this increase £3m was due to a dividend from the Company's subsidiary, Alliance Trust (Finance) Limited ('ATF'). This income is not recurring but it has increased the assets available to the Company to invest for income and capital growth.

Interest received fell by £462,000, reflecting the move, during the year, to being more fully invested in equities and other assets.

### Capital Performance

The significant capital appreciation shown in the first half of the year, when the capital return on the Company's assets exceeded £160m, continued into the second half. For the full year the capital return on the Company's portfolio was £395.5m. This was mainly represented by gains realised on the sale of investments and unrealised gains on investments held in the portfolio.

The year end net asset value per share of £40.42 represented an increase of 24.6% over the corresponding amount at the end of last year. In the year to 31 January 2006, the FTSE All-Share Index rose by 20.0% and the FTSE World Index, excluding UK, rose by 24.3%.

During the year the Company's share price rose by 27.3% to £34.90 and the discount fell to 13.7%.

### Expenses

The Company's expenditure rose by £1.3m to £6.5m. Of this increase, over 39% is represented by the charge of establishing and running our office in Hong Kong, which has more than covered its establishment and running costs to date in the over-performance

### Summary of Group profit before taxation

After consolidation adjustments

| £000 | 2006 | 2005 |
|---|---|---|
| **Company income** | | |
| Revenue | **51,529** | 47,490 |
| Capital | **396,948** | 146,148 |
| | **448,477** | 193,638 |
| **Subsidiaries income** | | |
| Revenue | **9,949** | 7,297 |
| Capital | **1,209** | 92 |
| | **11,158** | 7,389 |
| Total income | **459,635** | 201,027 |
| Company expenses | **(6,533)** | (5,193) |
| Subsidiary expenses | **(7,697)** | (4,311) |
| | **(14,230)** | (9,504) |
| Company finance costs | **(392)** | (174) |
| Subsidiary finance costs | **(1,909)** | (1,527) |
| | **(2,301)** | (1,701) |
| Foreign Exchange gains | **1,165** | 378 |
| Consolidated profit before taxation | **444,269** | 190,200 |

on that part of the portfolio managed from Hong Kong.

A further 15% of the increase is represented by the full year cost of incentives. The Senior Management Equity Incentive Plan ('SMEIP') has been in place for a year compared to a six month accrual for the SMEIP last year and we are accounting for matching shares under that plan. The directors consider that the introduction of the SMEIP has contributed to the investment performance in the current year and is a major factor in the recruitment and retention of high quality investment staff. We continue to invest in staff as the surest foundation of excellence.

In accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' we have treated that proportion of the costs of the SMEIP that the directors determine relate to the capital performance of the Company's investments and the costs of redeeming the Company's debenture and preference stocks as a charge against capital profits.

In the latter part of the year, the Company borrowed $97.5 million (£54.8 million) to take advantage of the strength of equity markets and as a partial hedge of its exposure to the US dollar. Reflecting the anticipated returns from the Company's asset portfolio, the directors have determined to allocate one third of the cost of this borrowing against revenue profits and the balance against capital profits.

## Dividend

The directors are recommending approval, at the AGM, of a final dividend of 37p per share which, with the 36.5p per share paid in May 2005, makes a total dividend of 73.5p per share for the year. This is an increase of 1.75p per share, or 2.4%, and matches the increase in the Retail Price Index over the same period.

The directors remain committed to the Company's progressive dividend policy which is, subject to there being sufficient distributable reserves, to increase, each financial year, the total dividend paid to shareholders. To this end, we are continuing the process of realigning the portfolio to reduce the dependence on higher yielding securities and, instead, to invest for growth in both capital and income.

## Subsidiaries

Before taking account of the acquisition of the Wolanski administration business, Alliance Trust Savings reported another record year of income of £5.8m, up 19% on the previous year. Charges paid by customers totalled £2.7m and interest, net of that paid on customer deposits, was £3.1m. Alliance Trust Savings costs before goodwill amortisation rose to £6.8m. Details of the acquisition of Wolanski & Co. Trustees Limited are set out in the notes to the accounts.

Alliance Trust Finance reported a profit before tax of £1.4 million. During the year preference shares owned by the Company were sold, on an arms' length basis, to Alliance Trust Finance in order to increase the resources available to the Company for investment in growth.

## Company Record

| | Capital and Income | | | Attributable to Ordinary shares | | | |
|---|---|---|---|---|---|---|---|
| | Total Assets less Current Liabilities £m | Total Capital Appreciation (Depreciation) £m | Total Income £m | Earnings p per share | Capital Appreciation (Depreciation) p per share | Dividend p per share | Net Asset Value p per share |
| 1996 | 1,228 | 272 | 34.4 | 56.30 | 539.42 | 53.00 | 2,428.18 |
| 1997 | 1,359 | 130 | 34.9 | 58.61 | 257.08 | 55.50 | 2,688.37 |
| 1998 | 1,565 | 203 | 38.8 | 64.89 | 402.50 | 59.00 | 3,096.76 |
| 1999 | 1,730 | 164 | 40.1 | 65.95 | 324.47 | 62.50 | 3,424.68 |
| 2000 | 1,888 | 156 | 41.0* | 68.86 | 310.06 | 64.50 | 3,739.10 |
| 2001 | 1,976 | 87 | 40.3 | 67.26 | 172.30 | 66.50 | 3,912.15 |
| 2002 | 1,674 | (305) | 45.0 | 74.80 | (604.73) | 68.50 | 3,313.73 |
| 2003 | 1,206 | (469) | 43.6 | 71.63 | (930.82) | 69.50 | 2,385.04 |
| 2004 | 1,476 | 268 | 46.1 | 75.40 | 531.54 | 70.50 | 2,921.47 |
| 2005** | 1,635 | 147 | 47.5 | 74.98 | 291.21 | 71.75 | 3,243.00 |
| **2006** | **2,037** | **395** | **54.5** | **86.95** | **784.71** | **73.50** | **4,042.00** |

* From 2000, income excludes the associated tax credit.

** Prior to 2005, shown in accordance with UK GAAP; from and including 2005, shown in accordance with IFRS.

# Non-executive Directors

■ Remuneration Committee
● Audit Committee
▲ Nomination Committee

**All are also directors of The Second Alliance Trust PLC and Alliance Trust Savings Limited.**

**Ages are as at 17 March 2006.**

### Lesley M S Knox MA (Chairman) (52)

▲

Joined the board 2001; appointed Chairman 2004; Chairman of the Nomination Committee

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

### William H Jack (61)

■▲

Joined the board 2000; Senior Independent Director

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

Other directorships include Skipton Group Holdings Limited and Skipton Building Society.

# Executive Directors

### Alan J Harden (48)

▲

Joined the Company as Chief Executive designate 2003; appointed Chief Executive 2004

Alan Harden started his career in the investment industry in the UK in 1978, moving to Europe in 1980 and then on to Cyprus two years later. From 1984 to 1990 he was with Wardley Investment Services (part of HSBC group) and relocated to Dubai in 1985. In 1988 he moved to Hong Kong as a Senior Investment Manager. In 1990 he joined Standard Chartered Bank as Managing Director of Scimitar Asset Management based in Singapore. In 1994 he became Global Head of Investment Services. In 2000 he moved to Citigroup Asset Management in Japan, was Head of the Asset Management business in the Asia Pacific region and a member of the Global Executive Committee. He joined the Company as Chief Executive designate in November 2003 and was appointed to the board on 1 January 2004, the date on which he took up the responsibilities of Chief Executive.

Alan Harden is a director of the Scottish Community Foundation.

**Christopher Masters** CBE FRSE BSc PhD AKC (58)
■●▲

Joined the board 2002; Chairman of the Remuneration Committee

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

Other directorships include British Assets Trust PLC, The Crown Agents Foundation and John Wood Group PLC.

**W Gordon McQueen** BSc CA FCIBS (59)
■●▲

Joined the board 2004; Chairman of the Audit Committee

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

Other directorships include Scottish Mortgage Investment Trust PLC, JPMorgan Mid Cap Investment Trust PLC and Shaftesbury PLC.

**Clare Salmon** MA (42)
■●

Joined the board 2005.

Clare Salmon graduated with an MA in English from Cambridge. In 1987 she joined Boston Consulting Group as a management consultant, working in London and Madrid. She gained considerable experience in financial services and was Consumer Marketing Director for the Prudential before joining Avis Europe as Group Marketing Director. After a brief spell at Transacsys PLC she joined Centrica PLC, becoming Managing Director of AA Financial Services before joining the commercial television network ITV as Marketing Director in 2005. She is now Director of Marketing and Commercial Strategy at ITV and is also a director of DTV Services Limited and The Marketing Society.

**Alan M W Young** MA LLB (59)

Joined the Company 1986; appointed to the board 1992

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

**Sheila M Ruckley** MA LLB DLP (56)

Joined the Company 1988; appointed to the board 2000

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

**David Deards** BA ACA (46)

Joined the Company and the board 2003

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

In this section we report to you on our structure and corporate governance. The statement regarding compliance with the Combined Code on Corporate Governance, as required by the rules of the UK Listing Authority, is on page 16.

## Corporate Structure

### Investment Trust Status

The Alliance Trust PLC is an investment company. After each accounting period it seeks approval to qualify as an investment trust under the Taxes Acts from the HM Revenue and Customs. Since receiving the last approval, which was for the year ended 31 January 2005, the Company has conducted its affairs to enable it to continue to seek approval.

### Structure

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

The Company operates in parallel with the Second Alliance Trust. This arrangement goes back to the end of the First World War when another, smaller, Dundee company, then called the Western & Hawaiian Investment Company, arranged with the Company to share office, investment management, administration and staff costs. In 1923 this smaller company changed its name to the Second Alliance Trust. The investment objective of the two companies is the same and their portfolios, which are almost identical in composition, are managed in parallel in terms of identical investment polices. The directors of both companies are the same individuals.

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

Each company takes independent advice as appropriate.

### The Board

The Alliance Trust has a board of executive and non-executive directors. The board provides the Company with both leadership and stewardship. The board's main duties are:

- To set the objective of the Group and to use its best endeavours to achieve that objective. The objective is set out opposite page one.
- To formulate business strategy.
- To provide leadership within a framework of prudent and effective controls which enables risk to be assessed and managed.

**Executive Directors**

**Alan Harden**
Chief Executive

**David Deards**
Finance Director

**Sheila Ruckley**
Director of Corporate Development

**Alan Young**
Investment Director

- To set the standards and values of the Group and ensure that it understands and meets its obligations to shareholders and others.
- To approve asset allocation and gearing strategy.
- To monitor performance.

## Executive Directors

There are four executive directors each of whom served throughout the year.

The Chief Executive is responsible for delivering the strategic objectives agreed by the board and for the day-to-day running of the Group.

## Non-executive Directors

There are five non-executive directors. William Berry retired from the board on 29 April 2005 after serving as a non-executive director for 10 years.

Clare Salmon was appointed as a non-executive director on 17 June 2005. The other non-executive directors served throughout the year.

Biographical details of all the directors appear on pages eight and nine and demonstrate the range of expertise that they each bring to bear on board matters.

All the non-executive directors serve on one or more committees of the board. The committees are the Nomination Committee (page 13), the Remuneration Committee (page 13 and pages 18-21) and the Audit Committee (page 16).

Lesley Knox, Chairman since 30 April 2004, has been a director since June 2001.

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

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

The Senior Independent Director is the director to whom shareholders should turn if they have issues which they consider are not being dealt with by the Chairman or the Chief Executive or in circumstances when contact with the Chairman or Chief Executive may be inappropriate.

## Independence of Directors

The board considers that all of the non-executive directors have the independence of mind, strength of character and judgement to satisfy the independence test.

Each of the non-executive directors is also a director of the Second Alliance Trust. The Company and the Second Alliance Trust are directed and managed on the same principles, with the same aims and objectives, the same investment policies, the same management and almost identical portfolios. The board believes that the relationship does not compromise the independence of the non-executive directors. The Company derives substantial benefit from the relationship with the Second Alliance Trust.

There are no other relationships or circumstances relating to any of the non-executive directors which might cause any of them not to be considered independent.

## Non-executive Directors

**Lesley Knox**
Chairman of the Company and Chairman of the Nomination Committee

**William Jack**
Senior Independent Director, member of Remuneration and Nomination Committees

**Gordon McQueen**
Chairman of the Audit Committee, member of Remuneration and Nomination Committees

**Christopher Masters**
Chairman of the Remuneration Committee, member of Audit and Nomination Committees

**Clare Salmon**
Member of Audit and Remuneration Committees

## Information and Professional Development

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

The Chairman, in conjunction with the Chief Executive and Company Secretary, plans the programme for the board during the year. The agenda for board and committee meetings are considered by the respective chairman and issued with supporting papers during the preceding week.

Non-executive directors meet with senior managers and other staff. All directors receive briefings and updates on the business, changes to the business, and on legislation and corporate governance.

## Meetings

The directors meet formally on a regular basis at least ten times in the year. In addition the board meets once a year for a review of its overall strategy. Ad hoc meetings may also be convened, and the committees of the board meet as required to discharge their specific duties.

Any director, executive or non-executive, can raise issues for discussion at a board meeting. The board receives presentations on key aspects of the business from relevant members of senior management at board meetings during the year. The board may ask for further information before making decisions. Decisions are made collectively. If there were an even division on a subject, the Chairman would have a casting vote.

In addition to regular board meetings, the Chairman meets at least once each year with the non-executive directors only. The non-executives, led by the Senior Independent Director, meet at least once a year without the Chairman present. Ad hoc meetings among these groups also take place if required. A record of directors' attendance at scheduled board and committee meetings during the year appears below.

## Decision Making

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

## Access to Advice

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

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

## Evaluation of Directors' Performance

A formal evaluation of the board has been carried out to determine how effectively the board as a whole, its individual directors and its committees are functioning. The board approached this evaluation with the intention of focussing on the board's overall contribution and identifying areas for potential improvement. The directors met specifically to discuss the performance of the board as a whole and their comments were shared with and noted by the Chairman. The

### Attendance at meetings

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Number of Meetings in the year** | **12** | **4** | **4** | **2** |
| William Berry | 2(3) | 1(1) | 1(2) | 1(1) |
| Lesley Knox | 12 | - | - | 2 |
| Alan Harden | 12 | - | - | 2 |
| David Deards | 12 | - | - | - |
| William Jack | 10 | 1(1) | 3 | 2 |
| Christopher Masters | 9 | 3 | 3 | 2 |
| Gordon McQueen | 10 | 3(3) | 4 | 2 |
| Sheila Ruckley | 11 | - | - | - |
| Clare Salmon | 6(6) | 2(2) | 1(1) | - |
| Alan Young | 12 | - | - | - |

The number of board and committee meetings and attendance by members during the year are set out in the table. Where a director joined the board during the year, or committee membership changed, the maximum number of meetings which that director was due to attend is shown in brackets.

Two board meetings were held at short notice to deal with a specific issues. Due to the short notice, Mrs Ruckley, Mr Jack and Mr McQueen were unable to attend one and Dr Masters and Mr McQueen were unable to attend the other. All directors received notice of the meetings and agreed to them proceeding.

Chairman discussed individual performance with each director and the Senior Independent Director held discussions with directors about the Chairman's performance and discussed the results with the Chairman. The chairman of each of the board committees received written comments on that Committee's performance from its members and reported these to the board as a whole. During the year and as a result of these discussions there have been changes to some reports which are prepared for board meetings, more time has been given for Audit and Remuneration Committee meetings and arrangements are made so that key topics can be reviewed in greater depth.

## Audit Committee

The role of the Audit Committee is described in the section 'Accountability and Audit' on page 16.

## Remuneration Committee

The Remuneration Committee has responsibility for making recommendations to the Board (i) on the Company's policy on the remuneration of senior management, (ii) for the determination, within agreed terms of reference, of the remuneration of the Chairman and of specific remuneration packages for each of the Executive Directors and the members of senior management, including pension rights, any compensation payments and (iii) for the implementation of employee share plans. The Remuneration Committee also ensures compliance with the Combined Code in this respect. The Committee members are Christopher Masters (Chairman), William Jack, Gordon McQueen and Clare Salmon, who joined the Committee in July 2005. William Berry was a member until he retired from the board in April 2005. For more detail on the remuneration of directors and the role of the Remuneration Committee, please refer to the Directors' Remuneration Report on pages 18 to 20.

## Nomination Committee and Appointments

The members of the Nomination Committee are Lesley Knox, William Jack, Christopher Masters, Gordon McQueen and Alan Harden. The Nomination Committee has responsibility for making recommendations to the Board on the composition of the Board and its committees and on retirements and appointments of additional and replacement directors and ensuring compliance with the Combined Code.

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

It is the Company's policy that the Chairman of the Company does not serve on any Nomination Committee dealing with the nomination of his or her successor, nor does any director proposed to succeed to such office.

## Committee Terms of Reference

The constitution and terms of reference of each of the Audit, Remuneration and Nomination Committees are available for reference on our website.

## Executive Committee

An Executive Committee, appointed by the Chief Executive advises the Chief Executive. Its members are noted in the table below.

## Material Interests

During the year, no director had any material interest in any contract, being

### Executive Committee

**comprises all executive directors and**

**Gill Cattanach**
Group Head of Marketing

**Grant Lindsay**
Head of Equities

**Steve Smith**
Head of Human Resources

**Rowland Strickland**
Chief Operating Officer

a contract of significance, with the Company or any subsidiary company or was connected to any adviser or supplier who had such an interest.

## Re-election of Directors

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

Clare Salmon joined the board in June 2005 and her appointment is subject to approval by shareholders at the forthcoming AGM. At the AGM Christopher Masters and David Deards will retire by rotation and stand for re-election. The board unanimously recommends the appointment of Clare Salmon and the re-election of Christopher Masters and David Deards by shareholders.

In common with the other executive directors, David Deards has a contract of service with the Company which is terminable by the Company on one year's notice. In common with the other non-executive directors, Clare Salmon and Christopher Masters have letters of appointment setting out the terms of their appointments, but do not have service contracts.

Biographical details of all directors are on pages eight and nine.

Shareholders are referred to the Notice of the AGM, which is in a separate document from this report.

## Directors' Shareholdings

All directors must hold at least 200 ordinary shares of the Company. Details of the holdings of all of the directors are shown in the tables below and on page 15.

Each director has shares in which he or she is beneficially interested. These include shares held by their spouses, children under 18 years and any other connected persons.

The executive directors are all participants in the Senior Managers Equity Incentive Plan ('SMEIP') which, in April 2005 for the first time made matching awards, subject to performance conditions, based on beneficially-owned shares deposited in the plan by the directors. The deposited shares are shown in the table below. The matching awards are made by options which are set out in the table on page 15. The options are over shares which are purchased in the market. Additionally, since all of the executive directors are potential beneficiaries under the SMEIP, each is deemed to be beneficially interested in all of the 7,487 shares held by the Trustee of the SMEIP. Accordingly in the table below we show, for each director, the number of shares held by the Trustee ('Deemed EBT interest') separately from the shares deposited by the individual director.

The matching awards are made by nil-cost share purchase options, shown in the table on page 15. The amount of shares over which the options can be exercised depends on the Company's Total Shareholder Return performance over the three year period following the award.

In addition, each of the directors is deemed to be interested in the shares held by the Trustee of the All Employee Share Ownership Plan. The shares to which the director is in fact entitled under this plan are included in his or her beneficial interest.

The Company has not granted any options to subscribe for its shares.

## Relationships with Shareholders

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

As well as meetings with institutional shareholders, which are largely conducted by the Chairman and Chief Executive, private shareholder investor forums are held throughout the UK. The Chairman relates to the board those issues raised with her by major and

### Directors' Interests

**All interests are beneficial**
(Ordinary shares of 25p)

| | As at 1 February 2005 or date of appointment * | 31 January 2006 | | | Acquired between 31 January 2006 and 15 March 2006 |
|---|---|---|---|---|---|
| | | **Shares held** | **Deposited with EBT** | **Deemed EBT interest** | |
| Lesley Knox | 1,255 | **2,175** | - | - | 16 |
| Alan Harden | 728 | **1,024** | **500** | **6,987** | 21 |
| David Deards | 1,384 | **1,545** | **264** | **7,223** | 7 |
| William Jack | 1,000 | **1,000** | - | - | - |
| Christopher Masters | 515 | **525** | - | - | - |
| Gordon McQueen | 200 | **200** | - | - | - |
| Sheila Ruckley | 2,085 | **2,399** | **235** | **7,252** | 7 |
| Clare Salmon* | 200 | **200** | - | - | - |
| Alan Young | 3,004 | **3,179** | **300** | **7,187** | 7 |

Acquisition of shares after 31 January 2006 has been pursuant only to standing instructions through plans provided by ATS and through the All Employee Share Ownership Plan.

other shareholders. All directors see correspondence from shareholders on Company issues.

The directors encourage all shareholders, including those who hold their shares through nominees, to attend and take part in the AGM.

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

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

**Major Shareholders' Holdings**
Ordinary stock units as at 15 March 2006

**Alliance Trust Savings Limited**
8,997,708 (17.85%)

**DC Thomson & Co Limited**
3,241,503 (6.43%)

**The Standard Life Assurance Company**
1,739,553 (3.45%)

**Barclays PLC**
1,611,511 (3.20%)

**Legal & General Investment Management Limited**
1,518,366 (3.01%)

## Political and Charitable Donations

During the year we made no political or charitable donations save that we have been a sponsor of ProShare (now IFS Proshare) this year making a contribution of £4,807 (£4,005). IFS ProShare, which has charitable status, promotes the rights of private shareholders and supports education on share ownership.

## Payment of Creditors

Investment purchases are settled in accordance with the terms of the exchanges on which the investments are listed. We try to achieve favourable terms when buying services and supplies. Contracts and payment terms are carefully scrutinised and we aim to pay in accordance with the terms of the contracts, which may be the suppliers' own terms. The Group has not adopted any code or standard on payment practice. The Group anticipates no change in its purchasing practices in the current financial year.

At 31 January 2006 the Company had no trade creditors. ATS, its principal operating subsidiary, had trade creditors equivalent to 26(8) days of average purchases.

## Corporate Social Responsibility

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

## Green Disclosures

In carrying out our activities over the last year, our UK greenhouse gas emissions by reason of the Group's activities (office heat and power requirements and employee travel), calculated in accordance with reporting guidelines issued by the Department for Environment, Food and Rural Affairs amounted to 197(146) tonnes of carbon dioxide. This is the equivalent of operating 17.4(12.9) three bar electric fires for a year.

## Social Responsibilities and Environmental Issues

We make investments against the background of our overall objective, seeking to achieve long term returns. As part of our continuing evaluation we consider, in an appropriate and balanced manner, companies' activities and management and also view them in a wider context, including the impact of public issues such as social and environmental matters. Such factors have relevance to the current and prospective value of investments.

## Voting

It is the Company's policy to exercise, wherever practical, its vote at meetings of companies in which it owns shares. We may engage in dialogue with the company on particular issues and, if not satisfied, may vote against the

**Matching awards under SMEIP**

| | Matching Awards | Date of Grant | Price Exerciseable | Date Exerciseable | Date of Expiry |
|---|---|---|---|---|---|
| Alan Harden | 1694 | 09-Jun-05 | £1 (total consideration) | 09-Jun-08 | 09-Sep-08 |
| David Deards | 894 | 09-Jun-05 | £1 (total consideration) | 09-Jun-08 | 09-Sep-08 |
| Sheila Ruckley | 796 | 09-Jun-05 | £1 (total consideration) | 09-Jun-08 | 09-Sep-08 |
| Alan Young | 1016 | 09-Jun-05 | £1 (total consideration) | 09-Jun-08 | 09-Sep-08 |

**Note**
Matching awards are made by share options. The options listed above comprise the maximum number of shares to which the Executive Director may become entitled depending upon achievement of the long term targets set within the plan. In the event that the targets are not met the number of options which may be exerciseable may be nil.

recommendation of the board of a company in which we hold an investment. Any proposal to vote against the recommendation of the board of the company in which the shares are held requires the approval of an executive director. Decisions to vote against such recommendations are reported to the board.

## Compliance with the Code of Best Practice

Pages 10-17 of this report, together with the directors' remuneration report on pages 18-20, disclose the application by the Company of the Combined Code on Corporate Governance, as required by the UK Listing Authority.

The board reports that during the year to 31 January 2006 it has complied with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 except in the following respects. There was no insurance cover in place in respect of legal action against the Company's directors until 9 June 2005. From 29 April 2005, when William Berry retired from the board, there were four executive and four non-executive directors until the appointment of Clare Salmon as a director on 17 June 2005. As previously announced Clare Salmon vacated office on 17 August 2005 by operation of Section 291 of the Companies Act by reason of not having acquired her qualification shares before that date and was re-appointed as a director on 14 September 2005. Accordingly, during the periods that Clare Salmon was not a director, after the retirement of William Berry there was an equality in number of executive and non-executive directors and, excluding the Chairman, less than half of the board members were independent non-executives.

## Accountability and Audit

### Directors' Responsibility for the Accounts

The directors are responsible for preparing the Report and Accounts and the Company and group financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Company and group financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare Company financial statements on the same basis.

The Company and the group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Company and the group and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Company and the group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and the Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Audit Committee

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

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

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

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

The Audit Committee members are Gordon McQueen (Chairman), Christopher Masters and Clare Salmon. William Jack was a member until 29 April 2005. William Berry was a member until his retirement from the board.

## Risk Management

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

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

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

The Risk Review Committee was set up to enhance the risk management function during a period of substantial business change. The members were William Jack (Chairman) in succession to Gordon McQueen, Lesley Knox and Christopher Masters. Once revised risk processes had been embedded in the Group's operations the Risk Review Committee was dissolved and responsibility for monitoring the risk management function and processes returned to the Audit Committee. The executive Risk Management Committee continues to meet regularly.

## Internal Control

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

The board reviews annually the scope and effectiveness of the system for internal control. This includes the consideration of financial, operational and compliance controls as well as of significant business risks and any changes in the nature and extent of those risks since the last review.

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

The main control mechanisms in place include:

- Separation of the roles of Chairman and Chief Executive on the board
- Strong non-executive directors and a robust Audit Committee and Risk Management Committee
- Clear departmental structures, backed up by inter-departmental support functions
- Clear authorisation limits
- Separation of duties
- A rolling internal audit programme

## Investment Risk and Financial Instruments

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

The Company does not engage in trading activity itself, although it invests in companies that trade. The Company may borrow and may make use of financial instruments and derivatives in order to enhance returns or to mitigate risks. Borrowing, financial instruments and derivatives carry their own risks, which must be managed effectively. During the last financial year, the Company's only borrowings or use of financial derivatives were its long term debentures, which were repaid in May 2005, and US $97.5 million borrowing referred to in the Financial results on page 7.

Ian Goddard

**By order of the Board**
**Ian Goddard, Company Secretary**

**Dundee, 17 March 2006**

In this section, we report to you on the remuneration of the directors in the year to 31 January 2006. At the AGM, the shareholders will be asked to approve this report. The vote is advisory and will not affect the remuneration which has been paid.

## Remuneration Policy

The Company's policy is that remuneration should be set at a level to attract and retain individuals of high calibre and to reward consistent high performance in order to benefit the long-term performance of the Company. Remuneration should also reflect individual responsibilities. All directors are appointed on the basis that they are competent to do the job, have the potential to deliver the objectives of the Group and are motivated by the alignment of their own interest with that of the shareholders.

## Non-executive Directors

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

Non-executive directors are initially appointed for a term of three years.

The maximum aggregate amount of fees which can be paid to the non-executives each year is approved by the shareholders at general meetings in accordance with the Articles of Association. The current aggregate amount is £120,000. Shareholders will be asked to increase this figure to £170,000 at the AGM. This maximum was last adjusted in 2003.

Within this aggregate, the Remuneration Committee determines the Chairman's fees and the board as a whole determines what the other non-executives should receive. The fees, which are normally reviewed at two year intervals, are set to take into account the time and responsibilities of the roles. No individual plays a part in the decision on his or her own remuneration. Independent consultants advise on issues of comparability, taking into account the nature of the duties to be performed and the time commitment involved. The fees paid to the individual non-executive directors are set out in the table on page 19.

## Executive Directors

Executive directors are salaried employees engaged full time in the business of the Group and the Second Alliance Trust. The level of their salaries is not laid down in the Articles of Association, but is determined by the Remuneration Committee, which is composed entirely of the independent non-executive directors. No director is involved in deciding his or her own remuneration. Each executive director also receives a salary from the Second Alliance Trust.

The Remuneration Committee appoints and receives advice from independent consultants on the level and composition of executive directors' remuneration. This advice is set against the position of the Company compared to its peers and the general level of remuneration and pay awards in the Group. Such advice may include pension and remuneration issues generally as they affect all staff. In 2005 it was provided by Monks Partnership, which has no connection with the Group other than by providing such consultancy services. Having received advice and data, the Committee makes its determination.

Each executive director has a contract of employment, these are available for inspection at the Company's registered office and at the AGM.

Some features of the executive directors' contracts are:

- They are terminable on one year's notice by the Company and on six months' notice by the director.
- Alan Harden's contract contains express mitigation provisions should his contract be terminated.
- The other executive directors have acknowledged in writing that they have a duty to mitigate loss in the event of early termination and the Remuneration Committee has a responsibility to take into account this duty before deciding upon compensation.
- All executive directors are required to retire at age 60.
- The remuneration packages of the executive directors comprise:
- Salary.
- Defined benefit pension arrangements.
- Death in service insurance and disability insurance. These are insured benefits which have no value on leaving service.
- Private health care which extends to any spouse and any unmarried children under 25.
- Eligibility for a bonus of a maximum of 50% of salary depending on personal and Group performance.
- Eligibility for membership of the Senior Management Equity Incentive Plan.
- Participation on the same terms as all staff in an All-Employee Share Ownership Plan ('AESOP') subject to the statutory maximum limit of £3,000 in any year.

## Annual Bonus Arrangements

Participants, including the executive directors, can earn a cash bonus at the end of each financial year. The grant of any award is discretionary. The amount of the award will be calculated in part by reference to achievement against stretching performance targets, which, in the case of executive directors, are approved and monitored by the Remuneration Committee, and in part to the Company's total shareholder return compared with its peer group. The cash bonus payable to any participant in the annual bonus scheme will not exceed 50% of their salary.

## Senior Management Equity Incentive Plan

At the 2005 Annual General Meeting shareholders approved the introduction of a Senior Management Equity Incentive Plan ('SMEIP') for executive directors and senior managers. Under SMEIP the Remuneration Committee has the discretion to require that one half of any bonus paid is used to purchase shares in the Company. These shares will be held by an Employee Benefit Trust ('EBT') on the terms of the SMEIP. Participants will also be given the opportunity to apply some or all of their remaining bonus to purchase further shares to be deposited with the EBT, again on the terms of the SMEIP. Shares deposited with the EBT will be

## Non-executive Directors Fees Paid

(Company and Group)

| | 31 Jan 2005 £ | **31 Jan 2006 £** | |
|---|---|---|---|
| Lesley Knox (Chairman) | 31,500 | **36,000** | Appointed April 2004 |
| William Berry | 18,000 | **4,450** | Retired April 2005 |
| William Jack | 18,000 | **18,000** | |
| Gordon McQueen | 12,000 | **18,000** | Appointed June 2004 |
| Christopher Masters | 18,000 | **18,000** | |
| Clare Salmon | - | **11,200** | Appointed June 2005 |

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

held by the EBT for a deferral period of three years, at the end of which an award of additional matching shares may be made. The number of matching *shares that are awarded to a participant* will depend on both the number of shares originally deposited with the EBT and the extent to which further demanding performance conditions have been satisfied over the duration of the three year deferral period. In the case of the executive directors, the performance condition is the Company's total shareholder return compared with its peer group. The maximum matching award that can be made under the SMEIP will be two shares for every one share originally deposited with the EBT.

The awards of ordinary shares will more closely align the interests of participants with the interests of shareholders.

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

## Company Performance Graph

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

It should be noted that the Company does not seek to track the FTSE All-Share Index. It is not used as a benchmark. It has been chosen to comply with the requirement simply because it is an index which we consider to be well known to our shareholders. The FTSE All-Share Index is a UK equity index, whereas a substantial part of the Company's assets are invested overseas and may not be fully invested in equities. The Company's assets will not necessarily perform in line with this index.

In addition, the return on the Company's shares is partly determined by supply and demand for the shares on the stock market. This return may not equate to the return achieved by the Company on its assets.

**31 January each year**

Source: Thomson Financial Datastream.

For the year under review, other indices are set out on pages 31 and 60.

Past performance is not a guide to future performance, and the value of investments may fall as well as rise.

## *Executive Directors Remuneration* †
(Group and Company)

| | Date of Contract | Salary 2006 £ | Taxable Benefits 2006 £ | AESOP Share Incentive Plan £ | Bonus £ | Total 2006 £ | Total 2005 £ |
|---|---|---|---|---|---|---|---|
| Alan Harden* | 15 October 2003 | **203,750** | **2,774** | **742** | **50,938** | **258,204** | 212,894 |
| David Deards | 22 November 2002 | **107,500** | **751** | **1,484** | **22,844** | **132,579** | 115,464 |
| Sheila Ruckley | 31 January 2001 | **93,750** | **951** | **1,484** | **23,438** | **119,623** | 102,856 |
| *Alan Young* | *6 November 1987* | **132,749** | **1,291** | **1,484** | **32,656** | **168,180** | 143,633 |

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

* Highest paid director during year.

The full value of the taxable benefits of each director and AESOP costs is shown here. As part of the joint employment arrangements (see note 4 on page 41) the Second Alliance Trust contributes 25% of the cost of benefits and AESOP costs for each director.

## Pensions

Details of the pension entitlement of executive directors and the cost to the Group are given below. A valuation of the defined benefit pension scheme (which is now closed to new members) is in note 24 of the accounts.

Non-executive directors do not receive pension benefits from the Company.

## Audit Statement

The tables on page 19, 20 and 21 together with the footnotes relating to them, have been audited by the Company's auditor whose report is on page 33.

**By order of the Board**
**Ian Goddard, Company Secretary**

**Dundee, 17 March 2006**

The transfer values of the accrued pensions and the transfer values of the inflation adjusted increases in the accrued pensions in the period have been calculated by the actuary of the scheme in accordance with actuarial guidance note GN11. The changes in the transfer values between 31 January 2005 and 31 January 2006 are significantly influenced by the assumptions underlying their calculation and market conditions.

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

Alan Young was credited with 5 years' pensionable service in August 1988. It was funded as to 2 years 1 month by a transfer in from a scheme connected with previous employment and 2 years 11 months by a discretionary increase. Mr Young's 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. By agreement, however, Mr Young will cease to accrue benefits under the pension scheme on 5 April 2006 without prejudice to the above enhancement. His pensionable salary, like that of Sheila Ruckley, is not subject to the earnings cap as they both joined the pension scheme before June 1989.

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

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

### Executive Directors Pensions

| | **Accumulated Total Accrued Pension per Annum** | | **Transfer Values** | | | Inflation Adjusted Increase in Year | |
|---|---|---|---|---|---|---|---|
| | 31 Jan 2005 | **31 Jan 2006** | 31 Jan 2005 | Changes | **31 Jan 2006** | Accrued pension | Transfer value |
| **£000** | £ | **£** | £ | £ | **£** | £ | £ |
| Alan Harden | 2,975 | **5,720** | 28,259 | 31,159 | **59,418** | 2,653 | 27,559 |
| David Deards | 3,188 | **5,280** | 26,844 | 21,790 | **48,634** | 1,993 | 18,357 |
| Sheila Ruckley | 24,454 | **27,214** | 366,966 | 99,306 | **466,272** | 2,002 | 32,301 |
| Alan Young | 57,622 | **62,773** | 1,031,574 | 258,944 | **1,290,518** | 3,365 | 69,179 |

High oil and commodity prices dominated the world economy over the last year. The global economy held up well as US demand remained relatively robust. So far, however, companies have been unable to pass on costs to the consumer and the heavy pressure on margins might start to take a toll on companies this year.

The success of the US economy in coping with higher input costs derived largely from sustained demand from US consumers. A buoyant housing market and heavy consumer borrowing fuelled demand but there are signs this may not last. Although the US demonstrated its resilience last year, a shift in consumer sentiment would have an impact not just on the US but on the global economy, particularly Asia. Much will depend on whether US employment can grow fast enough to sustain confidence and spending.

The US economy appears to be approaching a watershed after a better than expected year. There are signs that price growth in the US housing market could slow and this could affect consumer spending. Also, after a series of increases, US interest rates are moving closer to their peak. If US interest rates stop rising, then the dollar could come under pressure as markets focus on the large trade and fiscal deficits, despite the government's declared intention to cut the shortfall in the latter. In the wake of the devastating hurricanes last year, reconstruction is going to require continued heavy spending. Despite a firm year, the dollar is likely to lose ground next year and although Asian countries have continued to support the US currency by buying US Treasuries and other assets, this support may weaken going forward. Even a slight change in asset allocation by Asia could have a significant impact on the dollar.

Growth was far stronger in Asia-Pacific, with China continuing to expand dynamically and India also registering good growth after a favourable monsoon season. After upwardly revising its GDP figures, China has already replaced France as the world's fifth-largest economy and is now vying with the UK for fourth position. In spite of its strident growth, China was hit by rising oil and commodity prices that appeared to cut into margins on its export production. China's continued economic expansion depends largely on stimulating its own potentially massive consumer demand going forward to help compensate for any slowdown in export growth.

Last year saw positive economic trends developing in both Japan and Europe. Japan, the world's second largest economy, has shown encouraging signs that it is recovering from a long period of deflation. With bank lending and consumer prices appearing to be close to showing positive growth, the pivotal real estate market has also been showing early signs of life. Monetary policy remains favourable to an upturn and so far authorities have avoided

Oil Price (West Texas)

Source: Thomson Financial Datastream

US Federal Funds Rate

Source: Thomson Financial Datastream

risking this fragile recovery by not raising interest rates prematurely. If rates are increased later in the year, this will be a significant signal that Japanese policy makers are confident that the economy has turned the corner.

Both Japan and Europe were particularly affected by the oil price rises because of a weakness in their currencies. However, currency weakness helped to boost exports and improve business and consumer confidence in Europe, and particularly in Germany. Its corporate sector benefitted from exposure to high levels of demand from emerging markets such as China, particularly for goods such as industrial machinery. The European Central Bank raised interest rates in December signalling its confidence that the economy was recovering, although we have yet to see significant improvement in employment and investment figures, both of which will be necessary for a sustainable recovery.

The UK economy has been generally weaker with the manufacturing sector actually contracting in the second half of the year. The housing market saw house price growth slide back to just 3% from over 20% in the previous year. This slowdown in the pace of growth took a toll on consumer confidence, which was already suffering from little expansion of incomes, spiralling consumer debt, an upturn in unemployment and concerns over pensions. A further cut in interest rates may be necessary to boost economic growth.

Although a significant upturn in Europe and Japan could stimulate demand, this may not be enough to compensate for weaker growth in the US should its housing market fall sharply. With continuing political unrest centring on the Middle East still unsettling markets, oil and commodity prices are likely to act as as a cap on growth, squeeze margins further, or push inflation higher. With this pressure likely to continue this year, the economic outlook is mixed at best.

Japan - Consumer Price Inflation (ex food)

Source: Thomson Financial Datastream

UK House Price Growth (HBOS)

Source: Thomson Financial Datastream

At the start of the year, reservations about high oil and commodity prices made the economic outlook more uncertain, but the world's equity markets shrugged off the potential risks with a dynamic year.

Last year we implemented more fully a new and rigorous process to ensure that the Company's capital is allocated to those assets with the best potential to deliver long-term returns. It operates on a forward-looking and objective basis with the scope to exploit a wide range of opportunities. This process also aims to diversify that capital to offset potentially adverse moves in the assets we hold.

Many assets other than equities are now considered routinely and thoroughly, but our equity portfolio had an outstanding year. The outlook deteriorated in spring and we realised some equity holdings, but we rebuilt our equity allocation as companies' profitability began to prove much more robust than generally expected, and markets rallied. Stronger balance sheets and sustained, firm global economic activity stimulated mergers, including cross-border and private equity buyout deals. We were encouraged too by the continued trend to reward shareholders with increased dividend payments. Our equities outperformed against local indices particularly in the Japanese and the UK Smaller cap portfolios. Overall, 95% of the equity portfolio by value outperformed the relevant local index. Our prudent attitude to equities early in the year, given the significant risks of spiralling oil prices and more terrorist attacks, meant we had slightly less exposure than some of our peers to the rising markets. However, the level of uncertainty was such that, as a risk averse company, we consider that caution to have been appropriate.

We saw the benefits of our new geographical approach particularly in successful shifts of capital away from North America and into Japan, augmented by some profits taken after good performance in the rest of Asia Pacific. Having opened an office in Hong Kong in April, we quickly experienced the advantage of having a dedicated and locally based team as we invested early into a major leg of recovery in Japan, doubling our exposure to that market over the year.

We increased our Japanese portfolio in a very targetted manner, favouring banks in particular, encouraged by the rekindling of the real estate sector, which had been decimated and has remained in the doldrums over the last 15 years. The return of that crucial source of collateral for lending is key to self-sustaining growth. The increased insight brought by the new team also allowed us to trim selectively our Asia-Pacific portfolio, which is vulnerable to commodity price hikes and any dip in US consumption. We still have significant exposure to Chinese expansion through other companies we hold. Going forward we expect China to lead global growth.

| Distribution by sector | £m |
|---|---|
| Oil and Gas | 247.7 |
| Basic Materials | 151.3 |
| Industrials | 223.8 |
| Consumer Goods | 162.6 |
| Health Care | 157.3 |
| Consumer Services | 199.1 |
| Telecommunications | 61.6 |
| Utilities | 61.0 |

| | £m |
|---|---|
| Financials | 538.4 |
| Technology | 97.0 |
| Subsidiaries | 42.2 |
| Private Equity | 35.9 |
| Real Estate | 28.4 |
| Fixed Income | 21.5 |
| Other Net Assets | 9.4 |
| **Total assets less current liabilities** | **2037.2** |

| Distribution | £m |
|---|---|
| UK | 977.0 |
| North America | 320.6 |
| Europe | 227.8 |
| Japan | 214.3 |
| Asia Pacific | 162.6 |
| Rest of World | 6.9 |
| Fixed Income | 21.5 |
| Subsidiaries | 42.2 |
| Private Equity | 35.9 |
| Real Estate | 28.4 |
| **Total assets less current liabilities** | **2037.2** |

With signs that the corporate sector in Europe is beginning to pick up, we increased our exposure to Germany and expect to continue to expand our investment there. As with Japan, its companies benefit from infrastructure investment globally, they are leading the corporate restructuring in Europe, and Germany has a new government. Supportive policies are likely to persist and we expect profits growth to surprise on the upside. Therefore we are looking for opportunities to increase our European exposure.

We benefitted from being overweight in oil and mining stocks, given a particularly strong year for these companies, because of the rise in almost all commodity prices. Shielded to some extent from rising oil prices, service companies generally did better than manufacturing companies, which saw margins narrow, particularly in Asia. We continued to edge away from consumer stocks, preferring those companies with exposure to infrastructure projects in areas where growth will fuel demand, in both the emerging countries of Asia-Pacific and in countries as developed as those of North America. Much existing infrastructure is now overstretched or ageing, and we believe there are interesting investment prospects for some time ahead.

Although we have moved to historically very low weightings in the US due to better opportunities elsewhere, we remain convinced of its potential for dynamism, focussed reinvestment and renewed growth. We moved out of selecting smaller US companies during the year, concentrating our direct investment in larger and mid-sized companies, preferring to focus our dedicated North American team on those.

In the UK, where consumer confidence was declining, we pulled back from some retail stocks, although the housebuilders we hold did very well and should benefit from any cut in interest rates this year. Despite duller growth in the local economy, its quality companies still remain attractively priced because of their high exposure to world growth and strong dividend performance and are vulnerable to takeover. We shall continue to recycle proceeds into new opportunities.

As we diversify, we made our first direct property investments during the year. We expect these properties to begin a core holding with clear long-term yield prospects. Our fixed income portfolio performed well and we took some profits. Especially in the UK & US, longer-dated stocks have been driven down to extremely low yields as a result of pension demand. We increased our investments in private equity. To get a greater foothold in the promising pensions market, we invested in our financial services subsidiary, Alliance Trust Savings, which had a record year in terms of top line growth and new assets.

Our positive outlook for equities and other growth assets is reflected in our decision to gear modestly, borrowing in US dollars a total of 2.7% of net assets between November and year-end. We are investing this in Japan, Europe and Canada where we see opportunities and it provides some hedge against the US currency, which we expect to decline gradually.

Looking ahead we expect:

- Growth will continue and equity markets should remain positive although background risks from oil and terrorism will persist
- Equities will still be our key investment area, but we will continue to diversify into other assets such as property and private equity
- We will continue to foster our growth in the pensions market with investment in our financial services subsidiary, Alliance Trust Savings.

UK Mining

Source: Thomson Financial Datastream

The 20 largest investments at 31 January 2006

| | £m | | £m |
|---|---|---|---|
| BP | 75.7 | Alliance Trust Savings | 24.9 |
| Royal Dutch Shell | 64.5 | Barclays | 24.1 |
| GlaxoSmithKline | 56.9 | BHP Billiton | 23.2* |
| Rio Tinto | 42.5 | Lloyds TSB | 22.0 |
| HBOS | 38.0 | Alliance Trust Real Estate Partnership | 19.5 |
| iShares Russell Midcap Index Fund | 37.3 | Tesco | 18.9 |
| Vodafone | 32.1 | iShares Russell 2000 Index Fund | 18.9 |
| Persimmon | 28.6 | Mitsubishi UFJ Financial | 18.2 |
| Royal Bank Of Scotland | 28.1 | Prudential | 18.0 |
| HSBC | 27.7 | Exxon Mobil | 17.7 |

* Combined holding UK and Australia.

## UK Large Cap

**£806.5m**

**Last year marked another strong year for large UK companies in spite of lacklustre economic growth and the July terrorist attacks in London. Our portfolio returned 19.9%, against a return of 19.0% from the benchmark index.**

We benefitted from our large holdings of oil and commodity stocks, with the oil companies BP and Shell both returning over 24%. Growing Asian demand also drove up commodity prices, helping mining companies. Our holdings in Rio Tinto, BHP Billiton and Anglo American all performed very well with returns ranging from 58% to over 75%.

Financials had a mixed year, as banks suffered an early sell-off due to fears of a consumer slowdown, but rallied later in the year when company reports showed concerns were overdone. Our exposure was little changed, but we reduced our holding in Royal Bank of Scotland switching the proceeds to HBOS, Lloyds and HSBC.

Despite the most challenging operating environment for many years, housebuilder Persimmon had an outstanding 76% return. A well-timed acquisition helped the company break into the FTSE-100.

Difficult trading conditions affected the telecoms sector as deregulation and new technology increased competitive pressures. Despite Telefonica's takeover of $O_2$, the profit warning on Vodafone weighed on the sector and dampened returns. We reduced our holding in BT on fears competition will hit margins.

Looking forward, although risks of global instability are relatively high, broad prospects are attractive. The UK stockmarket is still cheap compared to other major stockmarkets and is attracting capital from overseas and private finance. The domestic economic outlook is challenging but UK companies look likely to benefit from falling interest rates and their exposure to global growth.

| Company | Sector | £m |
|---|---|---|
| BP | Oil & Gas Producers | 75.7 |
| Royal Dutch Shell | Oil & Gas Producers | 64.5 |
| GlaxoSmithKline | Pharmaceuticals & Biotechnology | 56.9 |
| Rio Tinto | Mining | 42.5 |
| HBOS | Banks | 38.0 |
| Vodafone | Mobile Telecommunications | 32.1 |
| Persimmon | Household Goods | 28.6 |
| Royal Bank of Scotland | Banks | 28.1 |
| HSBC | Banks | 27.7 |
| Barclays | Banks | 24.1 |

## UK Small Cap

**£161.1m**

**The UK Small Cap portfolio rose by almost 35% over the last 12 months, ahead of the 27% return from the FTSE World UK Small Cap Index.**

The resource sector was particularly strong, driven by demand from the growing global economy. The Merrill Lynch World Mining Trust and Vedanta Resources rose by over 85% and 100% respectively. Rising mining stocks pushed MLWM Trust higher, while Vedanta rose on production volume and profit growth prospects. We took part in the IPO of copper mining company, Kazakhmys, which has returned 35% since being listed in October.

Rising oil prices supported Wood Group and Paladin Resources. The growth prospects in Paladin's North Sea projects led to a bid from US operator Talisman Energy, which we accepted. Limited supply of expertise within the oil services industry and increasing demand bode well for future profit growth.

Within the manufacturing industry, Renishaw and Spirax continued to invest extensively in research and development, and this has been reflected in product development, sales and profit growth.

We effectively doubled our holding in healthcare company, Gyrus, after subscribing for more shares in support of the acquisition of ACMI, a US company. Stronger growth prospects have been recognised and the share price has increased sharply since the deal was announced.

We expect further growth in the UK service sector and continue to hold Carillion and Serco, which will benefit as the government expands its use of private companies to provide public services.

We expect the economic cycle to remain robust and continue to seek companies with visible profit growth and the prospect of positive surprise.

| Company | Sector | £m |
|---|---|---|
| Gyrus | Health Care Equipment & Services | 12.3 |
| Renishaw | Electronic & Electrical Equipment | 9.3 |
| Aberforth Smaller Companies | Equity Investment Instruments | 8.7 |
| Vedanta Resources | Mining | 8.4 |
| Spirax-Sarco | Industrial Engineering | 8.2 |
| Merrill Lynch World Mining Trust | Mining | 6.9 |
| Crest Nicholson | Household Goods | 6.5 |
| Serco | Support Services | 5.4 |
| Kazakhmys | Mining | 5.1 |
| John Wood Group | Oil Equipment,Services & Distribution | 4.9 |

## North America

**£320.6m**

**The US stock market rose 8% in local terms but lagged other major markets, although it was bolstered by the dollar rising by 6% against sterling. Performance on our North American large cap company portfolio was 18.5%, compared to the local benchmark of 15.4%.**

The market climbed in the face of serveral hurdles. The Fed raised its interest rates from 2% to 4.5% and the price of oil surged to $70 per barrel after hurricanes Katrina and Rita devastated the Gulf of Mexico, shutting refineries and reducing oil and gas output from the region by 20% over the year.

Our outperformance was largely driven by our heavy investment in oil and gas. Given tight supply the sector did particularly well, climbing 47%, and we increased our exposure with a new holding in Petro-Canada. Our largest holding, Exxon Mobil, only rose 22%, being less geared to the rising oil price. Growing demand for resources has led to increased demand for extraction equipment and services, encouraging us to add to our investment in Caterpillar which showed a share price rise of 52% over the year.

Canada is a particular beneficiary of rising demand for commodities, which accounts for 10% of its economy and 35% of exports. With the soundest economy of the G8 and good prospects for further economic growth, we increased our investment in Canada during the year. Canada's stock market rose 30% and the Canadian dollar climbed 13% against sterling. Takeover activity increased on the stock market as major new oil and gas discoveries proved increasingly difficult to find. This situation looks set to continue and we expect our investment in Canada to increase next year.

With petrol in the US reaching $3 a gallon, consumer confidence suffered. Companies sensitive to consumer demand were, in turn, poor performers. Wal-Mart, for example, declined 12%. We continued to reduce our investments in this area, selling PepsiCo. Pharmaceutical stocks, with the sector up 8%, performed weakly as the growth of prescription sales slowed and the industry failed to make progress in introducing new drugs. Healthcare did better and we sold our holding in Alcon, which had risen 80% over the year, re-investing in Zimmer, an orthopaedics manufacturer, on a much lower valuation.

During the year, our mid and small cap North American portfolio, which represented less than 4% of our equity portfolio, turned in a mixed performance as several sectors, including banks, did poorly, while resources and healthcare gained ground. Over the year this portfolio returned 20.7% versus 29.1% by its benchmark. Following on from the geographical split of our portfolio last year, we decided to concentrate our analytical and stock-picking resources in North America on large companies. We therefore sold all our US small company holdings by the end of the year and switched into Exchange Traded Funds ('ETFs'), with a view to redeploying the assets at a later date.

Looking ahead, we expect profits growth to slow, particularly in the US, amid greater pressure to increase pension funding. Mid-term elections and change of Fed chairman to Ben Bernanke may also cause uncertainty. The US housing market looks set to cool and consumers will have to pay for a full year of higher energy costs. However, as consumer spending slows, constrained commodity supply will drive a pick up in investment, which will be funded by healthy corporate cash flows as well as lively merger and acquisition activity both in Canada and the US.

| Company | Sector | £m |
|---|---|---|
| iShares Russell Midcap Index Fund | Exchange Traded Fund | 37.3 |
| iShares Russell 2000 Index Fund | Exchange Traded Fund | 18.9 |
| Exxon Mobil | Oil & Gas Producers | 17.7 |
| Abbott Laboratories | Health Care Equipment & Services | 15.1 |
| Microsoft | Software & Computer Services | 12.1 |
| Motorola | Technology Hardware & Equipment | 10.2 |
| General Electric | General Industrials | 9.3 |
| Johnson & Johnson | Pharmaceuticals & Biotechnology | 9.3 |
| Caterpillar | Industrial Engineering | 9.2 |
| Petro-Canada | Oil & Gas Producers | 9.0 |

## Asia-Pacific

**£162.6m**

**Our Asia-Pacific portfolio returned 36.0%, compared to the local benchmark that rose 32.4%. Even though the region's economies were buoyed by domestic demand and export growth, they had a mixed showing last year, with growth moderating in Korea, Taiwan, Hong Kong, Singapore and Australia. This was offset by acceleration in Japan and India, while China continued to grow at a torrid pace of more than 9%.**

During the year we sold into the strong markets, divesting about £35m of stocks in the region and shifting a large part of that money to Japan.

In Hong Kong, we substantially reduced our positions, particularly in property, selling out of Hong Kong Land, Sun Hung Kai and Henderson Land that we felt were fully valued. We also reduced our holdings in Chinese power producers, Beijing Datang and Huaneng Power, because capacity increases and high coal prices were dragging on earnings growth. We switched some of that money into the retailers Esprit and Dickson Concepts, which appeared undervalued. In the Chinese textile sector, we added to Weiqiao Textile and China Ting as we considered the negative sentiment about that sector overdone.

In Australia, we reduced our holdings, particularly in stocks oriented to domestic demand such as Woolworths, but continued to hold oil and resource stocks such as Woodside Petroleum, BHP Billiton and Newcrest Mining. In banking, we switched to ANZ Bank, and Macquarie Bank, with mixed results.

During the year we started positions in India and substantially added to our positions in Taiwan. In India, although economic prospects were exciting, we were cautious about adding stock since many looked fully valued. We added to Infosys, HCL Technologies and ICICI Bank. In Taiwan, we focussed on the technology sector and companies such as AU Optronics and Lite-on Technology, which are geared towards increasing adoption of LCD televisions.

| Company | Sector | £m |
|---|---|---|
| Woodside Petroleum | Oil & Gas Producers | 7.8 |
| Hong Kong Exchanges & Clearing | General Financial | 7.4 |
| China Merchants Holdings | Industrial Transportation | 7.2 |
| BHP Billiton | Mining | 6.6 |
| Au Optronics | Electronic & Electrical Equipment | 6.0 |
| Keppel Corporation | General Industrials | 5.9 |
| PTT | Oil & Gas Producers | 5.1 |
| Esprit | General Retailers | 4.9 |
| iShares A50 China Tracker | Exchange Traded Fund | 4.8 |
| Lite-On Technology | Technology Hardware & Equipment | 4.7 |

## Japan

**£214.3m**

**We were net buyers in Japan throughout the year adding £79m. Our exposure to Japan doubled from 5% to 10.5%. Our portfolio returned 51.6%, against the local benchmark return of 41.4%.**

Japan delivered a third straight year of strong corporate earnings growth as companies benefitted from recent restructuring and the growth of neighbouring economies. The focal point of the turnaround was the financial sector, which has held back the economy for more than 15 years. With a dramatic clean-up in bank balance sheets, investors began to perceive a general recovery and demand soared for domestic related stocks including real estate, retail, and trading companies. New investment meant real estate revaluation in a number of prime locations.

We remained overweight in the financial sector, as earnings recovered at major banks following a huge reduction in bad loans provision. We expect banks to refocus on their core businesses and increase business in loans, mortgages and fee-income related businesses. We sold Mitsui Trust & Banking and invested in Sumitomo Trust & Banking, which outpaced its competitors in core businesses performance. In the retail sector, we sold the convenience store retailer Lawson and added Diamond City, one of the large shopping mall developers.

The export sector generally underperformed the overall market as investors focused on domestic related issues. However, our exposure in autos such as Toyota and FCC was on par with the broader index and we expect these world leading companies to gain market share and remain at the forefront of technological development. Komatsu, the heavy machinery maker, performed well on strong housing and overseas sales of mining equipment.

We added to Ushio, the world's dominant leader in UV lamps used in semiconductor equipment. We also started a position in JSR, which is global leader in a number of LCD materials and synthetic rubber products. With the acceleration of the LCD television market, JSR will be a major beneficiary.

| Company | Sector | £m |
|---|---|---|
| Mitsubishi UFJ Financial | Banks | 18.2 |
| Mizuho Financial Group | Banks | 13.9 |
| Sumitomo Mitsui Financial Group | Banks | 12.0 |
| Toyota Motor | Automobiles & Parts | 11.7 |
| Mitsui Fudosan | Real Estate | 11.0 |
| Komatsu | Industrial Engineering | 10.2 |
| East Japan Railway | Travel & Leisure | 9.3 |
| Shin-Etsu Chemical | Chemicals | 9.0 |
| Hoya Equipment | Electronic & Electrical | 8.8 |
| FCC | Automobiles & Parts | 8.5 |

## Europe

**£227.8m**

**Our European portfolio returned 27.0% against a return of 26.2% by the local index benchmark. Prospects in Europe continued to improve as a weakened euro helped exports from the region, which has a broad-based exposure to global growth.**

In addition, restructuring continued and corporate balance sheets were strong, with cash returns to shareholders still healthy. Consolidation activity picked up with bidders attracted by low debt financing, as demonstrated by our holding Telefonica buying the UK mobile telecommunications operator $O_2$.

We were net buyers in Europe, particularly Germany, where, despite a snap election and the resulting coalition government, we anticipate further market friendly reform that could help spur the corporate sector further. German companies were increasingly seen to be leading the pack because they are already restructuring on their own initiative, which is leading to greater efficiencies and competitiveness and pushing confidence higher.

Our Swedish engineering companies, SKF, Sandvik and Atlas Copco, continued to outperform the market despite periodic fears that the strong cycle might start to slow. Their broad industrial and geographic exposures stood them in good stead. They demonstrated their strength with strong dividend growth and one-off special shareholder distributions.

Dutch staffing company Randstad, a new holding, performed well, benefitting from a turnaround in its home market and by consolidating its number one position in the growing German market.

Although consumer spending remained depressed both in Germany and in much of Europe because of high unemployment rates and fears over job security, some stocks that are exposed to the consumer performed strongly. In the beverages sector we started a holding in Pernod-Ricard, which consolidated its position as a top global player with the takeover of Allied Domecq. Holdings such as LVMH and Puma gained from increased global demand for their products.

Our European banking stocks performed strongly on the whole. UBS and new holding Deutsche Bank were helped by a strong investment banking environment. BNP Paribas of France benefitted from strong loan demand. UniCredito of Italy was boosted by its acquisition of HVB of Germany, which gave it further access to the strong growth countries of Central and Eastern Europe. We started a new holding in Anglo Irish Bank and sold out of ABN Amro, mainly on strategic concerns. Our three insurance holdings, AXA, CNP and Sampo, advanced on gearing to the equity markets and a resilient general insurance pricing environment

We tilted our pharmaceuticals exposure to focus on Roche and Novartis, which have excellent product pipelines. Our German healthcare companies performed excellently, driven by acquisitions and long term growth prospects for their services.

Our technology holdings performed well with software company SAP and semiconductor equipment stock ASML continuing to win market share. Shares of austriamicrosystems continued to rise as the company delivered solid sales growth and margin expansion. Our sale of Thomson proved very timely as the shares underperformed the sector and the wider market in the second half of the year.

| Company | Sector | £m |
|---|---|---|
| Total | Oil & Gas Producers | 14.0 |
| BNP Paribas | Banks | 12.0 |
| UBS | Banks | 11.8 |
| AXA | Non-Life Insurance | 9.6 |
| BBVA | Banks | 9.3 |
| Roche | Pharmaceuticals & Biotechnology | 8.9 |
| UniCredito Italiano | Banks | 8.9 |
| SKF | Industrial Engineering | 8.0 |
| Novartis | Pharmaceuticals & Biotechnology | 7.1 |
| SAP | Software & Computer Services | 7.1 |

## Real Estate

**£28.4m**

**The UK commercial real estate market remained in strong demand as investors sought both diversification and favourable relative and absolute returns. Yields are likely to remain firm in 2006 and low interest rates will also support current values. Rents are expected to grow in office markets, especially in London, but the market has already factored this in.**

In order to carry out its commitment to diversify investment across asset classes, the Alliance Trust established a partnership with the Second Alliance Trust to invest in direct property. Pooling resources allows us to target a wider variety of assets, while sharing risks. Joint investments are split, with 75% being funded by the Alliance Trust and the remainder by the Second Alliance Trust.

Last year this partnership made its first direct property investments with the acquisition of two prime Edinburgh properties with a combined value of £26m and gross rental income of £1.3m a year. Although our investments represented our first direct property investment in the UK, we already had exposure indirectly and our combined exposure to real estate at the end of the year was £66.5m, including our portfolio of listed property shares, property unit trust and mineral interests.

We are seeking to build steadily a portfolio of core properties and prefer quality assets with potential to grow rental income and capital value over the longer term. We will also target properties where there is opportunity to add value by active asset management.

The value of our mineral interests increased significantly last year due to various factors, not least the rise in oil and gas prices and increased investor demand. Gross royalty income increased by 21.7% from the previous year. 80% of our royalty income is derived from gas production, mainly in the US state of Oklahoma.

## Private Equity

**£35.9m**

**We invested a net £5.1m during the year. The most significant new holding established during the year was Promethean, an AIM-listed company with the objective of providing exposure to private equity backed businesses. Our existing quoted vehicles both performed very well. Candover rose by 38% and Standard Life European by 58%, well in excess of the 20% rise in the FTSE All-Share.**

Our unquoted buyout funds were active throughout the year. Albany Ventures took three new positions in software companies and Dunedin Buyout realised a fourfold return on Davenham, a Manchester-based lender. Herald Ventures started its investment with holdings in a healthcare-related company and a fuel cell technology business. We subscribed to an issue by Impax Environmental, a UK listed investment trust which specialises in alternative energy, water treatment and pollution control worldwide. Although its underlying holdings are mostly listed, the areas are still in a development phase. We took a substantial profit on one of our holdings of SVG convertible bonds at the time of its full conversion into equity.

## Fixed Income

**£21.5m**

**We reduced our fixed income holdings by £18.8m during the year to take advantage of the superior growth opportunities offered by equities, and are now concentrated wholly in UK financial preference stocks.**

Against a background of declining longer term interest rates, the portfolio produced a performance of 10.6% for the year which compares favourably with a total return of 9.2% on the MSCI Eurosterling Credit Index over the same period.

| Company | Sector | £m |
|---|---|---|
| Standard Life European Private Equity | Private Equity | 10.1 |
| Candover Investments | Private Equity | 9.6 |
| SVG Capital | Private Equity | 4.7 |
| Promethean | Private Equity | 3.9 |
| Dunedin Buyout Fund | Private Equity | 2.6 |
| Impax Enviromental Markets | Private Equity | 2.6 |
| Albany Ventures Fund | Private Equity | 1.5 |
| Euroclear | Private Equity | 0.6 |
| Herald Ventures II Limited | Private Equity | 0.5 |
| HBOS 9.25% | Fixed Income | 8.2 |
| Abbey National 10.375% | Fixed Income | 6.4 |
| General Accident 8.875% | Fixed Income | 4.0 |
| Standard Chartered 7.375% | Fixed Income | 3.1 |

## Investment Changes

| | Valuation at 31 Jan 2005* £m | Purchases £m | Sales £m | Appreci -ation £m | Valuation at 31 Jan 2006 £m |
|---|---|---|---|---|---|
| UK | 791.5 | 224.6 | (222.7) | 174.2 | 967.6 |
| North America | 295.1 | 162.2 | (188.3) | 51.6 | 320.6 |
| Europe | 170.6 | 63.4 | (56.0) | 49.8 | 227.8 |
| Japan | 80.6 | 113.7 | (34.5) | 54.5 | 214.3 |
| Asia Pacific | 158.4 | 66.5 | (111.9) | 49.6 | 162.6 |
| Rest of World | 10.7 | - | (6.3) | 2.5 | 6.9 |
| Fixed Income | 38.3 | - | (18.8) | 2.0 | 21.5 |
| Subsidiaries | 29.5 | 15.0 | - | (2.3)* | 42.2 |
| Private Equity | 22.4 | 7.7 | (2.6) | 8.4 | 35.9 |
| Real Estate† | 3.2 | 20.8 | - | 4.4 | 28.4 |
| | **1,600.3** | **673.9** | **(641.1)** | **394.7** | **2,027.8** |

* Restated for IFRS.
* Depreciation in Subsidiaries is offset by £3m dividend paid by ATF to the Alliance Trust.

† Includes oil and mineral rights.

The difference between the portfolio valuation of £2,027.8m and £2,037.2m on page 24 is represented by 'other net assets' of £9.4m.

## Classification of Investments

| % of net assets | UK % | Europe % | North America % | Japan % | Asia Pacific % | Rest of World % | **Total 2006 %** | Total 2005 % |
|---|---|---|---|---|---|---|---|---|
| Oil & Gas | 7.9 | 0.7 | 2.8 | - | 0.8 | - | **12.2** | 10.1 |
| Basic Materials | 5.4 | 0.5 | - | 0.7 | 0.8 | - | **7.4** | 4.6 |
| Industrials | 4.4 | 1.3 | 1.4 | 2.1 | 1.8 | - | **11.0** | 10.8 |
| Consumer Goods | 4.6 | 1.0 | 0.7 | 1.2 | 0.5 | - | **8.0** | 7.8 |
| Health Care | 3.4 | 1.7 | 2.2 | 0.3 | 0.1 | - | **7.7** | 8.2 |
| Consumer Services | 4.9 | 1.0 | 1.7 | 1.4 | 0.8 | - | **9.8** | 13.6 |
| Telecommunications | 2.2 | 0.2 | 0.4 | - | 0.2 | - | **3.0** | 4.7 |
| Utilities | 2.0 | 0.6 | 0.2 | - | 0.2 | - | **3.0** | 4.4 |
| Financials | 12.1 | 3.6 | 4.1 | 4.2 | 1.9 | 0.3 | **26.2** | 23.4 |
| Technology | 0.4 | 0.6 | 2.2 | 0.6 | 1.0 | - | **4.8** | 4.4 |
| Total Equities* | 47.3 | 11.2 | 15.7 | 10.5 | 8.1 | 0.3 | **93.1** | 92.0 |
| Private Equity | 1.8 | - | - | - | - | - | **1.8** | 1.4 |
| Subsidiaries | 2.1 | - | - | - | - | - | **2.1** | 1.8 |
| Real Estate | 1.0 | - | 0.4 | - | - | - | **1.4** | 0.2 |
| Fixed Income | 1.1 | - | - | - | - | - | **1.1** | 2.3 |
| Total Investments | 53.3 | 11.2 | 16.1 | 10.5 | 8.1 | 0.3 | **99.5** | 97.7 |
| Other Net Assets | 0.9 | 1.4 | (2.0) | - | 0.2 | - | **0.5** | 2.3 |
| Total assets less current liabilities (£2,037m) | 54.2 | 12.6 | 14.1 | 10.5 | 8.3 | 0.3 | **100.0** | |
| 2005 (£1,637m) | 55.1 | 11.1 | 18.4 | 5.0 | 9.7 | 0.7 | | 100.0 |

* Convertibles represent 0.7%(0.8%)

## Regional Equity Performance (Capital only)

year to 31 January 2006

| Geographic Region | Performance† % | Index* % |
|---|---|---|
| UK Mid and Large Cap | +19.9 | +19.0 |
| UK Small Cap | +34.6 | +26.8 |
| North America | +18.5 | +15.4 |
| Europe | +27.0 | +26.2 |
| Japan | +51.6 | +41.4 |
| Asia Pacific | +36.0 | +32.4 |
| Rest of the World | +61.5 | +74.1 |

* Source: FTSE Global Equity Index Services

† Source: Internal

## Alliance Trust Savings (ATS) offers share dealing, deposit taking and pension services to individuals. Customers can buy, hold and sell investments through a range of wrapper products from tax-free ISAs, PEPs and pensions to investment plans, including saving for children.

ATS marks its 20th year in business in May 2006. In the past year the Company increased its investment in ATS, recognising its importance to the Group going forward.

On 31 January 2006 ATS had over £1.8bn of assets under its administration in customers' Investment Plans, PEPs, ISAs and SIPPs. This was an increase of £442m from last year's figure of £1.4bn on a like for like basis. Total revenue amounted to £5.8m, up 19% on the previous year.

The acquisition of Wolanski & Co Trustees Limited ('WACT'), referred to in the Chief Executive's report, brings the total assets under administration to over £3.3bn and total combined customer numbers to approximately 39,000. The integration of the ATS and WACT pension administrations businesses is proceeding extremely well, with a meeting of minds on technical excellence, customer service and vision for the future of the integrated business. It has brought with it, too, a London office, highly skilled and committed staff who add to our already excellent staff in Dundee, all of whom are working together with enthusiasm, and a distribution network through high quality intermediaries.

Pensions 'A' Day will, accordingly, see ATS very well placed to move forward, especially in view of the investment in technology that is being made to modernise all the ATS systems, including enhancing the internet portal, ATS On Line, to allow customers to deal on-line.

The new ATS system went live in February and, despite some snaggings, it is already revealing how modern technology can increase operational efficiency and reduce operational risk. ATS became a member of the London Stock Exchange during the year and now carries out all dealings in securities for customers. Prior to the new system going live, processing times on normal dealing orders and volumes were in excess of a day. This has been reduced to less than 10 minutes. From the customer's point of view, we expect the improvements to be most marked when access to ATS is made much easier with on-line and telephone dealing. ATS will also be introducing enhanced facilities and improvements in its pension this year and much wider investment choice in all its investment wrappers.

Martin Currie Investment Management Limited, which is ceasing to provide its own PEPs, ISAs and savings plans, chose ATS as its preferred provider for its investment trust savings plans and approximately 75% of those customers have transferred to ATS.

### ATS Investment Plans

as at 31 January 2006

| | Customers | | Customer Assets | |
|---|---|---|---|---|
| | Numbers | Change over one year | £m | Change over one year |
| Select Investment Plan* | 10,583 | 3.7% | 276 | 39.4% |
| Select PEP | 17,274 | (4.1%) | 939 | 21.0% |
| Select ISA | 17,204 | 1.6% | 424 | 40.1% |
| SIPP | 5,240 | 8.0% | 248 | 47.6% |
| | 36,095† | | 1,887 | 30.6% |

† Some customers have more than one plan.

* Includes First Steps, introduced on 5 July 2004.

### Wolanski & Co. Trustees Limited part of ATS Group

| | Number of plans | Estimated value of assets held £m |
|---|---|---|
| SIPP | 3,814 | 1,163 |
| SSAS | 499 | 302 |

To the members of the Alliance Trust PLC

We have audited the group and parent company financial statements (the 'financial statements') of The Alliance Trust Plc for the year ended 31 January 2006 which comprise the Consolidated and Company Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statement, the Consolidated and Company Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## Directors' responsibilities for the Report and Accounts

The directors' responsibilities for preparing the Report and Accounts and the financial statements and the Directors' Remuneration Report in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 16.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulations. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Report and Accounts 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. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's and parent company's affairs as at 31 January 2006 and of their profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc, Registered Auditor
Chartered Accountants, Edinburgh
17 March 2006

# Consolidated income statement

**For the year ended 31 January 2006**

| £000 | Notes | 2006 Revenue | 2006 Capital | 2006 Total | 2005 Revenue | 2005 Capital | 2005 Total |
|---|---|---|---|---|---|---|---|
| **Investment income** | 3 | | | | | | |
| Deposit interest | | **6,930** | **-** | **6,930** | 6,635 | - | 6,635 |
| Dividend income | | **49,878** | **-** | **49,878** | 45,059 | - | 45,059 |
| Mineral rights income | | **850** | **-** | **850** | 649 | - | 649 |
| Rental income | | **81** | **-** | **81** | - | - | - |
| **Gains and losses on investments** | | | | | | | |
| Increase in fair-value designated investments held | | **-** | **236,790** | **236,790** | - | 71,849 | 71,849 |
| Increase in fair-value investments disposed of | | **-** | **161,367** | **161,367** | - | 74,391 | 74,391 |
| Other operating income | 3 | **3,739** | **-** | **3,739** | 2,444 | - | 2,444 |
| **Total revenue** | | **61,478** | **398,157** | **459,635** | 54,787 | 146,240 | 201,027 |
| Administrative expenses | 4 | **(13,947)** | **(283)** | **(14,230)** | (9,504) | - | (9,504) |
| Finance costs | 5 | **(2,071)** | **(230)** | **(2,301)** | (1,701) | - | (1,701) |
| Foreign exchange gains | | **-** | **1,165** | **1,165** | - | 378 | 378 |
| **Profit before tax** | | **45,460** | **398,809** | **444,269** | 43,582 | 146,618 | 190,200 |
| Tax | 6 | **(4,146)** | **106** | **(4,040)** | (4,759) | (601) | (5,360) |
| **Profit for the period** | | **41,314** | **398,915** | **440,229** | 38,823 | 146,017 | 184,840 |
| Attributable to: Minority interest | | **(49)** | **297** | **248** | 259 | 23 | 282 |
| Equity holders of the parent | | **41,363** | **398,618** | **439,981** | 38,564 | 145,994 | 184,558 |
| | | **41,314** | **398,915** | **440,229** | 38,823 | 146,017 | 184,840 |
| **Earnings per share** | 8 | **82.07p** | **790.95p** | **873.02p** | 76.52p | 289.67p | 366.19p |

## Consolidated statement of changes in equity

| £000 | Share Capital | Capital Reserves | Capital Redemption Reserve | Revenue Reserves | Minority Interest | Total |
|---|---|---|---|---|---|---|
| Net assets at 31 January 2005 | 12,600 | 1,555,725 | - | 66,361 | 9,830 | 1,644,516 |
| Dividend paid | - | - | - | (36,664) | - | (36,664) |
| Net profit for year | - | 398,618 | - | 41,363 | 248 | 440,229 |
| Own shares purchased | - | (112) | - | - | - | (112) |
| Decrease in pension scheme deficit | - | 25 | - | - | - | 25 |
| Transfer to capital redemption reserve | - | (2,200) | 2,200 | - | - | - |
| Investment in subsidiary | - | - | - | - | 5,000 | 5,000 |
| Dividend from subsidiary | - | - | - | - | (1,000) | (1,000) |
| Net assets at 31 January 2006 | 12,600 | 1,952,056 | 2,200 | 71,060 | 14,078 | 2,051,994 |

# Company income statement

**For the year ended 31 January 2006**

| £000 | Notes | 2006 Revenue | 2006 Capital | 2006 Total | 2005 Revenue | 2005 Capital | 2005 Total |
|---|---|---|---|---|---|---|---|
| **Investment income** | 3 | | | | | | |
| Deposit interest | | **2,170** | **-** | **2,170** | 2,632 | - | 2,632 |
| Dividend income | | **51,428** | **-** | **51,428** | 44,198 | - | 44,198 |
| Mineral rights income | | **850** | **-** | **850** | 649 | - | 649 |
| Rental income | | **81** | **-** | **81** | - | - | - |
| **Gains and losses on investments** | | | | | | | |
| Increase in fair value designated investments held | | **-** | **233,460** | **233,460** | - | 75,144 | 75,144 |
| Increase in fair value investments disposed of | | **-** | **161,230** | **161,230** | - | 71,849 | 71,849 |
| Other operating income | 3 | **-** | **-** | **-** | 11 | - | 11 |
| **Total revenue** | | **54,529** | **394,690** | **449,219** | 47,490 | 146,993 | 194,483 |
| Administrative expenses | 4 | **(6,279)** | **(254)** | **(6,533)** | (5,193) | - | (5,193) |
| Finance costs | 5 | **(162)** | **(230)** | **(392)** | (174) | - | (174) |
| Foreign exchange gains | | **-** | **1,165** | **1,165** | - | 378 | 378 |
| **Profit before tax** | | **48,088** | **395,371** | **443,459** | 42,123 | 147,371 | 189,494 |
| Tax | 6 | **(4,270)** | **98** | **(4,172)** | (4,335) | (601) | (4,936) |
| **Profit for the period** | | **43,818** | **395,469** | **439,287** | 37,788 | 146,770 | 184,558 |
| Attributable to: Equity shareholders | | **43,818** | **395,469** | **439,287** | 37,788 | 146,770 | 184,558 |
| **Earnings per share** | 8 | **86.95p** | **784.71p** | **871.66p** | 74.98p | 291.21p | 366.19p |

## Company statement of changes in equity

| £000 | Share Capital | Capital Reserves | Capital Redemption Reserve | Revenue Reserves | Total |
|---|---|---|---|---|---|
| Net assets at 31 January 2005 | 12,600 | 1,570,906 | - | 51,180 | 1,634,686 |
| Dividend paid | - | - | - | (36,664) | (36,664) |
| Net profit for year | - | 395,469 | - | 43,818 | 439,287 |
| Own shares purchased | - | (112) | - | - | (112) |
| Decrease in pension scheme deficit | - | 25 | - | - | 25 |
| Transfer to capital redemption reserve | - | (2,200) | 2,200 | - | - |
| Net assets at 31 January 2006 | 12,600 | 1,964,088 | 2,200 | 58,334 | 2,037,222 |

# Balance sheet

**As at 31 January 2006**

| £000 | Notes | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Held at fair value investments | 9 | **2,004,743** | 1,587,311 | **2,027,760** | 1,600,288 |
| Investment property | | **19,500** | - | - | - |
| Property, plant and equipment | 9 | | | | |
| Office premises | | **450** | 450 | **450** | 450 |
| Motor vehicles | | **16** | - | **7** | - |
| Intangible assets | 12 | **10,152** | - | **174** | - |
| Deferred tax assets | 13 | **2,627** | 142 | **91** | 112 |
| | | **2,037,488** | 1,587,903 | **2,028,482** | 1,600,850 |
| **Current assets** | | | | | |
| Other receivables | 14 | **12,152** | 8,146 | **8,368** | 6,417 |
| Cash and cash equivalents | | **160,176** | 141,838 | **60,994** | 39,750 |
| | | **172,328** | 149,984 | **69,362** | 46,167 |
| **Total assets** | | **2,209,816** | 1,737,887 | **2,097,844** | 1,647,017 |
| **Current liabilities** | | | | | |
| Other payables | 15 | **(102,731)** | (90,881) | **(5,531)** | (9,841) |
| Bank overdrafts and loans | 16 | **(54,837)** | - | **(54,837)** | - |
| | | **(157,568)** | (90,881) | **(60,368)** | (9,841) |
| **Total assets less current liabilities** | | **2,052,248** | 1,647,006 | **2,037,476** | 1,637,176 |
| **Non-current liabilities** | | | | | |
| Preference shares | | - | (2,200) | - | (2,200) |
| Retirement benefit obligations | | **(254)** | (290) | **(254)** | (290) |
| | | **(254)** | (2,490) | **(254)** | (2,490) |
| **Net assets** | | **2,051,994** | 1,644,516 | **2,037,222** | 1,634,686 |
| **Equity** | | | | | |
| Share capital | 17 | **12,600** | 12,600 | **12,600** | 12,600 |
| Capital reserves | | **1,952,056** | 1,555,725 | **1,964,088** | 1,570,906 |
| Capital redemption reserve | | **2,200** | - | **2,200** | - |
| Revenue reserves | | **71,060** | 66,361 | **58,334** | 51,180 |
| **Equity attributable to equity holders** | | **2,037,916** | 1,634,686 | **2,037,222** | 1,634,686 |
| **Minority interest** | | **14,078** | 9,830 | - | - |
| **Total equity** | | **2,051,994** | 1,644,516 | **2,037,222** | 1,634,686 |
| **Net Asset Value per ordinary share** | 18 | **£40.44** | £32.43 | **£40.42** | £32.43 |

The financial statements were approved by the board of directors and authorised for issue on 17 March 2006.

They were signed on its behalf by:

Lesley Knox

**Lesley Knox**
Director

**Alan Harden**
Director

# Cash flow

## For the year ended 31 January 2006

| £000 | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before tax | **444,269** | 190,200 | **443,459** | 189,494 |
| Adjustments for | | | | |
| Gains on investments | **(398,157)** | (146,240) | **(394,690)** | (146,993) |
| Foreign exchange gains | **(1,165)** | (378) | **(1,165)** | (378) |
| Scrip dividends | **(897)** | - | **(897)** | - |
| Bond premium amortisation | **327** | 417 | **1** | 8 |
| Movements in advances and loans | **-** | 4,000 | **-** | - |
| Depreciation | **8** | - | **3** | - |
| Amortisation of intangibles | **66** | - | **23** | - |
| Interest | **2,301** | 1,701 | **392** | 174 |
| Fixed assets written off | **41** | - | **-** | - |
| Increase in amounts due to depositors | **11,063** | 6,976 | **-** | - |
| Operating cash flows before movements in working capital | **57,856** | 56,676 | **47,126** | 42,305 |
| (Increase)Decrease in receivables | **(2,000)** | 414 | **(128)** | (254) |
| Increase(Decrease) in payables | **5,935** | (1,945) | **902** | 417 |
| Net cash from operating activities before income taxes | **61,791** | 55,145 | **47,900** | 42,468 |
| Income taxes paid | **(5,181)** | (4,873) | **(4,974)** | (4,382) |
| Net cash from operating activities | **56,610** | 50,272 | **42,926** | 38,086 |
| **Cash flows from investing activities** | | | | |
| Proceeds on disposal of fair value through profit and loss investments | **650,618** | 326,985 | **639,681** | 320,985 |
| Purchases of fair value through profit and loss investments | **(673,328)** | (301,140) | **(676,438)** | (297,680) |
| Purchase of investment properties | **(20,307)** | - | **-** | - |
| | **(43,017)** | 25,845 | **(36,757)** | 23,305 |
| Purchase of property, plant and equipment | **(24)** | - | **(10)** | - |
| Purchase of intangible assets | **(1,981)** | - | **(197)** | - |
| Purchase of business and subsidiary undertaking | **(10,623)** | - | **-** | - |
| Net cash (outflow)inflow from investing activities | **(55,645)** | 25,845 | **(36,964)** | 23,305 |
| **Cash flows from financing activities** | | | | |
| Dividends paid - Equity | **(36,664)** | (35,784) | **(36,664)** | (35,784) |
| Dividends paid - Preference shares | **(49)** | - | **(49)** | - |
| Purchase of own shares | **(112)** | - | **(112)** | - |
| Repayments of borrowings | **-** | - | **-** | (12,000) |
| New bank loans raised | **54,798** | - | **54,798** | - |
| Issue of shares to minority interest | **5,000** | - | **-** | - |
| Dividends paid to minority interest | **(1,000)** | - | **-** | - |
| Repayment of Debenture Stock | **(1,648)** | - | **(1,648)** | - |
| Repayment of Preference Stock | **(2,200)** | - | **(2,200)** | - |
| Increase in bank overdrafts | **39** | - | **39** | - |
| Interest | **(1,956)** | (1,701) | **(47)** | (174) |
| Net cash inflow(outflow) from financing activities | **16,208** | (37,485) | **14,117** | (47,958) |
| Net increase in cash and cash equivalents | **17,173** | 38,632 | **20,079** | 13,433 |
| Cash and cash equivalents at beginning of year | **141,838** | 102,828 | **39,750** | 25,939 |
| Effect of foreign exchange rate changes | **1,165** | 378 | **1,165** | 378 |
| Cash and cash equivalents at end of year | **160,176** | 141,838 | **60,994** | 39,750 |

## 1 General Information

The Alliance Trust PLC is a company incorporated in the United Kingdom under the Companies Acts 1862-1886. The address of the registered office is given on page 59. The nature of the Group's operations and its principal activities are a global investment trust.

These financial statements are presented in sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

## 2 Summary of Significant Accounting Policies

### Basis of accounting

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs), which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), International Accounting Standards and Standing Interpretations Committee and interpretations approved by the International Accounting Standards Committee ('IASC') that remain in effect and to the extent that they have been adopted by the European Union. The disclosures required by IFRS 1 First-time Adoption of International Financial Reporting Standards ('IFRS 1') concerning the transition from UK GAAP to IFRSs are given in note 26.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain fixed assets. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts issued by the Association of Investment Trusts ('AITC') in January 2003 as revised in December 2005 is consistent with the requirements of IFRS, then the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP, save that whilst the Group allocates certain expenses against capital profits, it does not allocate all direct expenditure on the same basis.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 January each year. Control is achieved where the Company has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Presentation of income statement

In order better to reflect the activities of an investment trust company and in accordance with guidance issued by the AITC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Company's compliance with certain requirements sets out in Section 842 Income and Corporation Taxes Act 1988.

### Goodwill

Capitalised goodwill is the excess of the cost of the acquisition of a subsidiary or business over the fair value of the Group's share of assets acquired. Goodwill is reviewed annually for impairment.

### Income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established, normally the ex-dividend date.

Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a capital gain in the income statement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Special dividends are treated as repayment of capital or as income depending on the facts of each particular case.

Underwriting commission is recognised as earned.

Savings and pension plan transaction charges and set-up fees are accounted for on the date on which the underlying transaction occurs. Annual charges are applied over the period to which they relate.

### Foreign currencies

Transactions in currencies other than sterling are recorded at the rates of exchange applicable to the dates of the transactions. At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued and are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included as capital net profit or loss for the period where investments are classified as fair value through profit or loss.

### Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the income statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the acquisition of an investment are included within the cost of that investment.
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- The directors have determined to allocate annual bonus and Senior Management Equity Incentive Plan costs which relate to the achievement of investment manager performance objectives and total stockholder return performance objectives against capital profits and those that relate to the achievement of job performance objectives against revenue profits.
- The directors have determined to allocate two thirds of the cost of bank indebtedness incurred to finance investment against capital profits with the balance being allocated against revenue profits.
- The expenses related to the repayment of the Company's Preference stock and redemption of its Debenture stock have been allocated against capital.

### Pension costs

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

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

The liability recognised in the balance

sheet in respect of the defined benefit plan is the present value of the Company's defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

Actuarial gains and losses are recognised in full in the period in which they occur through equity.

## Taxation

The Company carries on its business as an investment trust and conducts its affairs so as to qualify as such under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the income statement is the 'marginal basis'. Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the income statement, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group shall offset financial assets and financial liabilities if the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

## Other receivables

Other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

## Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are principally designated as fair value through profit and loss investments, and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Where securities are fair-value designated investments, gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item. Foreign exchange gains and losses for fair-value designated investments are included within the changes in its fair value.

Investments in property are valued at fair value and changes in fair value are recognised through the income statement.

In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using valuation techniques, which may include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is utilised. Where no reliable fair value can be estimated for such unquoted equity instruments, they are carried at cost, subject to any provision for impairment.

## Office premises

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

## Intangible assets

The external costs associated with the development and procurement of significant technology systems are capitalised and stated at cost less accumulated amortisation. On the completion of each project amortisation is charged so as to write off the value of these assets over periods up to five years.

## Motor vehicles

Motor vehicles are held at cost less accumulated depreciation, which is charged to write off the value of the vehicle over three years.

## Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

## Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## Other payables

Other payables are not interest bearing and are stated at their nominal value.

## Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 3 Revenue

An analysis of the Group's revenue is as follows:

| £000 | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| Investment income | | | | |
| Listed dividends - UK | **30,584** | 27,719 | **29,960** | 27,719 |
| Unlisted dividends - Subsidiaries | **-** | - | **3,000** | - |
| Unlisted dividends - UK | **-** | 21 | **-** | 21 |
| Listed dividends - Overseas | **17,212** | 16,074 | **17,212** | 16,074 |
| Unlisted dividends - Overseas | **17** | 9 | **17** | 9 |
| Interest on fixed income securities | **1,168** | 1,236 | **342** | 375 |
| Scrip dividends | **897** | - | **897** | - |
| Property income | **81** | - | **81** | - |
| Mineral rights income | **1,066** | 876 | **1,066** | 876 |
| Direct mineral rights expenses | **(216)** | (227) | **(216)** | (227) |
| Deposit interest | **6,930** | 6,635 | **2,170** | 2,632 |
| Other operating income | | | | |
| Savings and pension plan charges | **3,739** | 2,275 | **-** | - |
| Miscellaneous | **-** | 169 | **-** | 11 |
| | **61,478** | 54,787 | **54,529** | 47,490 |
| Total investment and other operating income comprises : | | | | |
| Dividend income | **48,710** | 43,823 | **51,086** | 43,823 |
| Interest on fixed income securities | **1,168** | 1,236 | **342** | 375 |
| Deposit interest | **6,930** | 6,635 | **2,170** | 2,632 |
| Other income | **4,670** | 3,093 | **931** | 660 |
| | **61,478** | 54,787 | **54,529** | 47,490 |
| Investment income comprises | | | | |
| Listed investments | **49,861** | 45,029 | **48,411** | 44,168 |
| Unlisted investments | **948** | 679 | **3,948** | 679 |
| | **50,809** | 45,708 | **52,359** | 44,847 |

## 4 Profit from operations

| £000 | GROUP 2006 Revenue | GROUP 2006 Capital | GROUP 2006 Total | GROUP 2005 Revenue | GROUP 2005 Capital | GROUP 2005 Total |
|---|---|---|---|---|---|---|
| Directors' remuneration | **784** | **-** | **784** | 681 | - | 681 |
| Staff costs | **6,143** | **200** | **6,343** | 3,661 | - | 3,661 |
| Social security costs | **610** | **-** | **610** | 405 | - | 405 |
| Regular pension contributions | **1,055** | **-** | **1,055** | 806 | - | 806 |
| Remuneration of auditor for audit | **29** | **-** | **29** | 25 | - | 25 |
| Remuneration of auditor for regulatory reports on behalf of Alliance Trust Savings Limited | **5** | **-** | **5** | 4 | - | 4 |
| Other | **5,321** | **83** | **5,404** | 3,922 | - | 3,922 |
| | **13,947** | **283** | **14,230** | 9,504 | - | 9,504 |

| £000 | COMPANY 2006 Revenue | COMPANY 2006 Capital | COMPANY 2006 Total | COMPANY 2005 Revenue | COMPANY 2005 Capital | COMPANY 2005 Total |
|---|---|---|---|---|---|---|
| Directors' remuneration | **784** | **-** | **784** | 681 | - | 681 |
| Staff costs | **2,552** | **171** | **2,723** | 1,813 | - | 1,813 |
| Social security costs | **255** | **-** | **255** | 236 | - | 236 |
| Regular pension contributions | **460** | **-** | **460** | 415 | - | 415 |
| Contribution received from ATS | **(127)** | **-** | **(127)** | - | - | - |
| Remuneration of auditor for audit | **19** | **-** | **19** | 14 | - | 14 |
| Other | **2,336** | **83** | **2,419** | 2,034 | - | 2,034 |
| | **6,279** | **254** | **6,533** | 5,193 | - | 5,193 |

Details of directors' remuneration are given on pages 18 to 21. At 31 January 2006, the Group employed 206(135) full time and 23(19) part time staff, excluding directors. Staff costs are shared with The Second Alliance Trust PLC ('the Second Alliance Trust'). The number of employees for 2006 increased significantly as compared with 2005 as a result of the investment in staff and the acquisition of Wolanski & Co Trustees Limited in October 2005.

The management and administration expenses of the Company amounted to £6,533,000 (£5,193,000) representing 0.32% (0.32%) of the year end attributable net asset value of £2,037,222,000 (£1,634,686,000). The cost of insured benefits for staff including executive directors is included in other expenses.

Direct expenses related to mineral rights income are now fully allocated against that income, previously an element was included as an expense. This has resulted in £165,000 of last year's expenses being allocated against income.

## 5 Finance costs

| £000 | GROUP 2006 Revenue | GROUP 2006 Capital | GROUP 2006 Total | GROUP 2005 Revenue | GROUP 2005 Capital | GROUP 2005 Total |
|---|---|---|---|---|---|---|
| Interest | | | | | | |
| Bank loans and overdrafts | **2,034** | **230** | **2,264** | 1,530 | - | 1,530 |
| Debenture stock - redeemed 15 May 2005 | **21** | **-** | **21** | 74 | - | 74 |
| Preference shares - repaid 30 June 2005 | **16** | **-** | **16** | 97 | - | 97 |
| Total finance costs | **2,071** | **230** | **2,301** | 1,701 | - | 1,701 |

| £000 | COMPANY 2006 Revenue | COMPANY 2006 Capital | COMPANY 2006 Total | COMPANY 2005 Revenue | COMPANY 2005 Capital | COMPANY 2005 Total |
|---|---|---|---|---|---|---|
| Interest | | | | | | |
| Bank loans and overdrafts | **125** | **230** | **355** | 3 | - | 3 |
| Debenture stock - redeemed 15 May 2005 | **21** | **-** | **21** | 74 | - | 74 |
| Preference shares - repaid 30 June 2005 | **16** | **-** | **16** | 97 | - | 97 |
| Total finance costs | **162** | **230** | **392** | 174 | - | 174 |

The Company has borrowed $97.5m (£54.8m) to take advantage of the strength of the equity market and as a partial hedge against the US dollar.

Reflecting the anticipated returns from the Company's asset portfolio the directors have determined to allocate one third of the cost of borrowing against revenue profits and the balance against capital profits.

## 6 Taxation

| £000 | GROUP 2006 Revenue | 2006 Capital | 2006 Total | GROUP 2005 Revenue | 2005 Capital | 2005 Total |
|---|---|---|---|---|---|---|
| UK corporation tax at 30% | **3,894** | **(114)** | **3,780** | 4,763 | 601 | 5,364 |
| Overseas taxation | **1,843** | **24** | **1,867** | 1,611 | 301 | 1,912 |
| | **5,737** | **(90)** | **5,647** | 6,374 | 902 | 7,276 |
| Relief for overseas taxation | **(1,843)** | **(24)** | **(1,867)** | (1,611) | (301) | (1,912) |
| | **3,894** | **(114)** | **3,780** | 4,763 | 601 | 5,364 |
| Deferred taxation | **252** | **8** | **260** | (4) | - | (4) |
| | **4,146** | **(106)** | **4,040** | 4,759 | 601 | 5,360 |
| **Reconciliation of tax charge** | | | | | | |
| Profit before tax | **45,460** | **398,809** | **444,269** | 43,582 | 146,618 | 190,200 |
| UK corporation tax payable at 30% | **13,638** | **119,643** | **133,281** | 13,075 | 43,985 | 57,060 |
| **Items not subject to corporation tax** | | | | | | |
| Franked investment income | **(9,444)** | **-** | **(9,444)** | (8,322) | - | (8,322) |
| Realised (gains)losses on investments | **-** | **(48,410)** | **(48,410)** | - | (20,954) | (20,954) |
| Increase in unrealised appreciation | **-** | **(70,989)** | **(70,989)** | - | (22,317) | (22,317) |
| Foreign exchange gains | **-** | **(350)** | **(350)** | - | (113) | (113) |
| Adjustments arising on the difference between taxation and accounting treatment of income and expenses | **(48)** | **-** | **(48)** | 6 | - | 6 |
| | **4,146** | **(106)** | **4,040** | 4,759 | 601 | 5,360 |

| £000 | COMPANY 2006 Revenue | 2006 Capital | 2006 Total | COMPANY 2005 Revenue | 2005 Capital | 2005 Total |
|---|---|---|---|---|---|---|
| UK corporation tax at 30% | **4,268** | **(106)** | **4,162** | 4,341 | 601 | 4,942 |
| Overseas taxation | **1,843** | **24** | **1,867** | 1,611 | 301 | 1,912 |
| | **6,111** | **(82)** | **6,029** | 5,952 | 902 | 6,854 |
| Relief for overseas taxation | **(1,843)** | **(24)** | **(1,867)** | (1,611) | (301) | (1,912) |
| | **4,268** | **(106)** | **4,162** | 4,341 | 601 | 4,942 |
| Deferred taxation | **2** | **8** | **10** | (6) | - | (6) |
| | **4,270** | **(98)** | **4,172** | 4,335 | 601 | 4,936 |
| **Reconciliation of tax charge** | | | | | | |
| Profit before tax | **48,088** | **395,371** | **443,459** | 42,123 | 147,371 | 189,494 |
| UK corporation tax payable at 30% | **14,427** | **118,611** | **133,038** | 12,637 | 44,211 | 56,848 |
| **Items not subject to corporation tax** | | | | | | |
| Franked investment income | **(10,157)** | **-** | **(10,157)** | (8,322) | - | (8,322) |
| Realised (gains)losses on investments | **-** | **(69,990)** | **(69,990)** | - | (20,954) | (20,954) |
| Increase in unrealised appreciation | **-** | **(48,369)** | **(48,369)** | - | (22,543) | (22,543) |
| Foreign exchange gains | **-** | **(350)** | **(350)** | - | (113) | (113) |
| Adjustments arising on the difference between taxation and accounting treatment of income and expenses | **-** | **-** | **-** | 20 | - | 20 |
| | **4,270** | **(98)** | **4,172** | 4,335 | 601 | 4,936 |

## 7 Dividends

| £000 | 2006 | 2005 |
|---|---|---|
| Final dividend for the year ended 31 January 2005 of 36.25p (2004 35.5p) per share | **18,270** | 17,892 |
| Interim dividend for the year ended 31 January 2006 of 36.5p (2005 35.5p) per share | **18,394** | 17,892 |
| | **36,664** | 35,784 |
| Proposed final dividend for the year ended 31 January 2006 of 37.0p (2005 36.25p) per share | **18,646** | 18,270 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered.

| | | |
|---|---|---|
| Interim dividend for the year ended 31 January 2006 of 36.5p (2005 35.5p) per share | **18,394** | 17,892 |
| Proposed final dividend for the year ended 31 January 2006 of 37.0p (2005 36.25p) per share. | **18,646** | 18,270 |
| | **37,040** | 36,162 |

## 8 Earnings per share

From continuing operations.

The calculation of the basic and diluted earnings per share is based on the following data:

| | GROUP | | | GROUP | | |
|---|---|---|---|---|---|---|
| | **2006 Revenue** | **2006 Capital** | **2006 Total** | 2005 Revenue | 2005 Capital | 2005 Total |
| **Ordinary shares** | | | | | | |
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders (£000) | **41,363** | **398,618** | **439,981** | 38,564 | 145,994 | 184,558 |
| **Number of shares** | | | | | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | | | **50,396,806** | | | 50,400,000 |

| | COMPANY | | | COMPANY | | |
|---|---|---|---|---|---|---|
| | **2006 Revenue** | **2006 Capital** | **2006 Total** | 2005 Revenue | 2005 Capital | 2005 Total |
| **Ordinary shares** | | | | | | |
| Earnings for the purposes of basic earnings per share being net profit attributable to equity holders (£000) | **43,818** | **395,469** | **439,287** | 37,788 | 146,770 | 184,558 |
| **Number of shares** | | | | | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | | | **50,396,806** | | | 50,400,000 |

The weighted average number of ordinary shares is arrived at by taking account of 4,682 ordinary shares acquired by the Company on 27 May 2005 and held by the Trustee of The Employee Benefit Trust for the Company.

## 9 Non-current Assets

| £000 | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| **Held at fair value investments** | | | | |
| Investments listed on a recognised investment exchange | **1,991,241** | 1,581,095 | **1,972,025** | 1,564,581 |
| Unlisted investments | **13,502** | 6,216 | **13,502** | 6,216 |
| Subsidiary companies (note 10) | **-** | - | **42,233** | 29,491 |
| | **2,004,743** | 1,587,311 | **2,027,760** | 1,600,288 |

| £000 | GROUP Investments | COMPANY Investments | COMPANY Subsidiaries | COMPANY Total |
|---|---|---|---|---|
| Opening book cost as at 1 February 2005 | 1,098,426 | 1,082,061 | 12,900 | 1,094,961 |
| Opening unrealised appreciation | 488,885 | 488,736 | 16,591 | 505,327 |
| Opening valuation | 1,587,311 | 1,570,797 | 29,491 | 1,600,288 |
| Movements in the year | | | | |
| Bond premium amortisation | (327) | (1) | - | (1) |
| Purchases at cost* | 670,818 | 658,928 | 15,000 | 673,928 |
| Sales - proceeds* | (652,082) | (641,145) | - | (641,145) |
| - realised gains on sales | 161,426 | 161,230 | - | 161,230 |
| Increase(decrease) in unrealised appreciation | 237,597 | 235,718 | (2,258) | 233,460 |
| Closing valuation | 2,004,743 | 1,985,527 | 42,233 | 2,027,760 |
| Closing book cost | 1,278,261 | 1,261,073 | 27,900 | 1,288,973 |
| Closing unrealised appreciation | 726,482 | 724,454 | 14,333 | 738,787 |
| Closing valuation as at 31 January 2006 | 2,004,743 | 1,985,527 | 42,233 | 2,027,760 |

* Expenses incidental to the purchase or sale of investments are included within the purchase cost or deducted from the sale proceeds. These expenses amount to £3,676,000 (£2,319,000).

A geographical analysis of the investment portfolio by broad industrial or commercial sector is given on page 31.
A list of the 20 largest investments in the portfolio is given on page 25.

| £000 | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| **Office Premises Freehold/Heritable Property** | | | | |
| Opening and closing valuation | 450 | 450 | 450 | 450 |

J & E Shepherd, Chartered Surveyors, valued the office premises at 31 January 2004, at £450,000 on the basis of market value. The valuation was in accordance with RICS Appraisal and Valuation Standards. The historic cost of the office premises is £292,000.

| £000 | *GROUP* Motor vehicles | *COMPANY* Motor vehicles |
|---|---|---|
| **Motor vehicles** | | |
| Additions at cost | 24 | 10 |
| Depreciation | 8 | 3 |
| Closing book cost at 31 January 2006 | 16 | 7 |

## 10 Subsidiaries

The results of the following subsidiary companies and partnerships, which all operate in the United Kingdom are consolidated in the Group accounts.

| Name | Shares held | Country of incorp. | Principal Activity |
|---|---|---|---|
| **Alliance Trust Savings Limited ('ATS')** | Ordinary | Scotland | Deposit taking, provision and administration of investment and pension products |
| **Alliance Trust (Finance) Limited ('ATF')** | Ordinary | Scotland | Asset holding |
| **ATS Trust Corporation Limited ('ATSTC')** | Ordinary | England | Trustee |
| **Wolanski & Co. Trustees Limited** | Ordinary | England | Trustee and pensions administration |
| **Alliance Trust Leasing Limited ('ATL')** | Ordinary | Scotland | Formerly leasing administration (as principal and agent) now inactive |

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

**Acquisition of Wolanski & Co. Trustees Limited**

On 12 October 2005, Alliance Trust Savings Limited, a subsidiary of The Alliance Trust, acquired the entire issued share capital of Wolanski & Co. Trustees Limited, and certain business and assets of Wolanski & Co for a total consideration of £10,623,000. The transaction has been accounted for by the purchase method of accounting.

| **£000** | **Book value at acquisition** | **Fair value adjustments** | **Fair value** |
|---|---|---|---|
| **Net assets acquired:** | | | |
| Fixed assets: Plant & equipment | **41** | **-** | **41** |
| Non-current assets: Customer contracts | **-** | **2,110** | **2,110** |
| Deferred tax asset | **-** | **2,345** | **2,345** |
| Net assets acquired | **41** | **4,455** | **4,496** |
| Goodwill on acquisition | | | **6,127** |
| | | | **10,623** |
| Satisfied by: Cash | | | **10,000** |
| Directly attributable costs | | | **623** |
| | | | **10,623** |

Goodwill arose on the acquisition. The goodwill reflects the value placed on the assembled workforce and infrastructure, which are not separately identifiable intangible assets in accordance with International Financial Reporting Standards.

It is not practicable separately to identify the profit since the date of the acquisition attributable to certain business and assets acquired from Wolanski & Co. For this reason the amount of the acquiree's profit since the acquisition date included in the income statement has not been disclosed.

ATS Trust Corporation Limited was formed to act as a trustee of pension plan assets, but to date has not undertaken any responsibilities. ATS owns 100% of ATSTC.

The investment in subsidiary companies is valued in the Company's accounts at £42,223,000 (£29,491,000) being the net asset value of the Company's equity interests taking into account securities at fair value.

A summarised statement of the balance sheets of the subsidiaries is shown below. The reports and accounts of all subsidiary companies are delivered to the Registrar of Companies.

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

## 11 Subsidiaries continued

**Summarised balance sheets**

| £000 | ATS GROUP 2006 | ATS GROUP 2005 | ATF GROUP 2006 | ATF GROUP 2005 |
|---|---|---|---|---|
| Investments | **18,003** | 13,844 | **19,569** | 2,598 |
| Other fixed assets | **1,750** | - | - | - |
| Goodwill | **7,531** | - | - | - |
| Customer contracts | **2,110** | - | - | - |
| Money at call and short notice | **97,009** | 80,174 | **2,637** | 22,382 |
| | **126,403** | 94,018 | **22,206** | 24,980 |
| Financed by | | | | |
| Amounts due to depositors | **90,264** | 79,199 | - | - |
| Creditors less debtors | **2,937** | 376 | **240** | 175 |
| | **93,201** | 79,575 | **240** | 175 |
| Shareholder funds | **33,202** | 14,443 | **21,966** | 24,805 |
| | **126,403** | 94,018 | **22,206** | 24,980 |

## 12 Intangible Assets

| £000 | GROUP Goodwill | GROUP Other fixed assets | GROUP Customer contracts | GROUP Total | COMPANY Other fixed assets |
|---|---|---|---|---|---|
| Additional goodwill recognised | 6,127 | - | - | 6,127 | - |
| Additions at cost | - | 1,981 | 2,110 | 4,091 | 197 |
| Amortisation | - | 66 | - | 66 | 23 |
| **Carrying amount at end of period** | | | | | |
| Gross amount | 6,127 | 1,981 | 2,110 | 10,218 | 197 |
| Accumulated amortisation | - | 66 | - | 66 | 23 |
| Closing book cost at 31 January 2006 | 6,127 | 1,915 | 2,110 | 10,152 | 174 |

Other fixed assets relate to the external costs associated with the development and procurement of significant technology systems. Amortisation is charged on the completion of each project so as to write off these assets over a period of up to five years.

## 13 Deferred Tax

| £000 | | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|---|
| **As at 31 January 2005** | | **142** | (102) | **112** | (134) |
| Deferred tax assets arising on acquisition | | **2,345** | - | - | - |
| Release of asset on reduction of pension scheme liability | **(11)** | 240 | **(11)** | 240 | |
| Transfer to current tax | | **(250)** | - | - | - |
| Transfer to(from) deferred tax | | **401** | 4 | **(10)** | 6 |
| As at January 2006 | | **2,627** | 142 | **91** | 112 |

## 14 Other Financial Assets

| £000 | GROUP 2006 | 2005 | COMPANY 2006 | 2005 |
|---|---|---|---|---|
| **Other receivables** | | | | |
| Amounts receivable from equity instruments | **2,027** | 2,091 | **2,027** | 2,091 |
| Other income receivable | **1,835** | 1,232 | **-** | - |
| Amounts receivable in respect of sales of investments awaiting settlement | **5,508** | 4,044 | **5,508** | 4,044 |
| Taxation recoverable | **796** | 254 | **632** | 254 |
| Amount due from subsidiary company | **-** | - | **-** | 19 |
| Other debtors | **1,986** | 525 | **201** | 9 |
| | **12,152** | 8,146 | **8,368** | 6,417 |

The directors consider that the carrying amount of other receivables approximates to their fair value.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

**Credit Risk**

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds and derivative financial instruments is relatively low because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

## 15 Other Financial Liabilities

| £000 | GROUP 2006 | 2005 | COMPANY 2006 | 2005 |
|---|---|---|---|---|
| Amounts due to depositors | **89,802** | 78,739 | **-** | - |
| Debenture stock redeemed 15 May 2005 | **-** | 1,648 | **-** | 1,648 |
| Amount payable in respect of purchases of investments awaiting settlement | **2,108** | 5,515 | **2,108** | 5,515 |
| UK corporation tax payable | **1,348** | 1,737 | **1,084** | 1,495 |
| Preference dividend payable | **-** | 49 | **-** | 49 |
| Amount due to subsidiary company | **-** | - | **-** | 42 |
| Other creditors | **9,473** | 3,193 | **2,339** | 1,092 |
| | **102,731** | 90,881 | **5,531** | 9,841 |

## 16 Bank Overdrafts and Loans

| £000 | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| Bank overdraft | **39** | - | **39** | - |
| Bank loans - repayable within one year | **54,798** | - | **54,798** | - |
| | **54,837** | - | **54,837** | - |

| £000 | GROUP Total | COMPANY Total |
|---|---|---|
| **Analysis of borrowings by currency:** | | |
| Bank loans - US Dollars | **54,798** | **54,798** |

| | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| **The weighted average % interest rates paid:** | | | | |
| Bank loans | **4.93** | - | **4.93** | - |

A bank loan of $97.5 million (nil) was arranged at a fixed rate and exposes the Group to fair value interest rate risk.

| £000 | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| **The directors estimate the fair value of the borrowings:** | | | | |
| Bank loans | **54,798** | - | **54,798** | - |

## 17 Share Capital

| £000 | 2006 | 2005 |
|---|---|---|
| Authorised: 50,400,000 million ordinary shares of 25p each. | **12,600** | 12,600 |
| Allotted, called up and fully paid: 50,400,000 million ordinary shares of 25p each | **12,600** | 12,600 |

The Company has one class of ordinary share which carries no right to fixed income.

## 18 Net Asset Value per Ordinary Share

The calculation of the net asset value is based on the following:

| | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| Equity shareholder funds (£000) | **2,037,916** | 1,634,686 | **2,037,222** | 1,634,686 |
| Number of shares | **50,395,318** | 50,400,000 | **50,395,318** | 50,400,000 |

The number of ordinary shares has been reduced by 4,682 ordinary shares acquired by the Company on 27 May 2005 and held by the Trustee of the Employee Benefit Trust for the Company.

## 19 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

**Transactions**
During the year, group companies entered into the following transactions with related parties who are not members of the Group:

The affairs of the Group are managed in conjunction with those of the Second Alliance Trust and its subsidiary company Second Alliance Leasing ('SAL'). Although the parent companies are not controlled by common shareholders, the composition of the board of each company is currently the same and for the purposes of International Accounting Standard 24 the companies are regarded as related parties, requiring disclosure of material, mutual transactions.

The Groups operate from the same offices, employ staff jointly and share the cost of common services. The basis of allocation is 75% for the Company and 25% for the Second Alliance Trust after allowing for a contribution from ATS and reflects the respective sizes of the companies. During the year to 31 January 2006 the Second Alliance Trust paid a contribution of £1,480,000 (£1,103,000).

The minority interest shareholding in ATS and ATF is held by the Second Alliance Trust.

The Company and the Second Alliance Trust are the limited partners of Alliance Trust Real Estate Partners, established in October 2005 to co-invest in property, and are equal owners of Alliance Trust Real Estate Partners (GP) Limited, the general partner. The partnership shares are held in the ratio 75:25, the Alliance being greater.

SAL has a deposit facility with ATS, the balance at 31 January 2006 being £121,540 (£311,000) due to SAL.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

During the year to 31 January 2006 ATF acquired from the Second Alliance Trust, at market value, £5,631,000 of preference stocks and gilts held in that company's portfolio.

## 20 Analysis of change in net funds

| £000 | | 2005 | Cash flow | Exchange gains | 2006 |
|---|---|---|---|---|---|
| Group | Cash at bank and in hand | 1,626 | 4,767 | - | **6,393** |
| | Bank deposits | 140,212 | 12,406 | 1,165 | **153,783** |
| | Debenture stock | (1,648) | 1,648 | - | - |
| | Bank loans and overdraft | - | (54,837) | - | **(54,837)** |
| | | 140,190 | (36,016) | 1,165 | **105,339** |
| Company | Cash at bank and in hand | 3 | 4,674 | - | **4,677** |
| | Bank deposits | 39,747 | 15,405 | 1,165 | **56,317** |
| | Debenture stock | (1,648) | 1,648 | - | - |
| | Bank loans and overdraft | - | (54,837) | - | **(54,837)** |
| | | 38,102 | (33,110) | 1,165 | **6,157** |

The Directors' Report details the Company's approach to investment risk management on page 17 and the accounting policies on pages 38 and 39 explain the basis on which currencies and investments are valued for accounting purposes.

## 21 Financial commitments

Financial commitments of the Company as at 31 January 2006, which have not been accrued, amounted to £4,385,913 (£5,289,352 ) in respect of uncalled subscriptions in investments structured as limited liability partnerships.

## 22 Financial instruments

The Directors' Report details the Company's approach to investment risk management on page 17 and the accounting policies on page 38 and 39 explain the basis on which currencies and investments are valued for accounting purposes.

No derivatives were used. All assets and liabilities are carried at fair value, with the exception of the Company's debenture and preference stocks.

During the year the Company redeemed £1,648,000 debenture stock at par and repaid £2,220,000 preference stock at par. The aggregate market value at 31 January 2005 was £3,291,000, a discount to their value of the equivalent of 1.1p per ordinary share. There are now no debenture or preference stocks in issue.

### Currency exposure (Company)

| £000 | **Overseas investments 2006** | **Net monetary assets 2006** | **Total currency exposure 2006** | Overseas investments 2005 | Net monetary assets 2005 | Total currency exposure 2005 |
|---|---|---|---|---|---|---|
| US dollar | **302,048** | **(51,829)** | **250,219** | 288,293 | 2,708 | 291,001 |
| Euro | **227,759** | **29,676** | **257,435** | 131,173 | 9,661 | 140,834 |
| Yen | **214,286** | **1,907** | **216,193** | 80,805 | 1,047 | 81,852 |
| Other non-sterling | **182,556** | **12,199** | **194,755** | 214,012 | - | 214,012 |
| | **926,649** | **(8,047)** | **918,602** | 714,283 | 13,416 | 727,699 |

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

## 23 Share Based Payments

The Group operates two share based payment schemes.

**All-Employee Share Ownership Plan ('AESOP')**

AESOP performance targets are set annually and dependant upon their achievement all employees may receive up to £3,000 of shares; this amount is prorated for part time employees. Individuals receive these shares free of all restrictions after a period of 5 years. For the year to 31 January 2006 awards of £2,250 (£1,500) per person will be made. The total cost of all awards for the year to 31 January 2006 will be £268,725 (£160,184) of which the Company will pay £75,737 (£50,382), the Group £244,325 (£143,389) and the Second Alliance will contribute £24,400 (£16,794).

**Senior Management Equity Incentive Plan ('SMEIP')**

Executive directors and senior managers are members of the SMEIP. At least half of their annual bonuses is applied to purchase shares in the Company to be held in an Employee Benefit Trust ('EBT') and after a deferral period of three years an award of additional matching shares may be made. For more details see pages 19 and 20.

In the year to 31 January 2006 participating employees applied a proportion of their annual cash bonuses for the year ended 31 January 2005 to purchase 2,805 Company shares at a price of £27.98 and matching awards of up to 7,741 shares in the Company were granted on 9 June 2005. The matching awards will be made after a period of three years dependant upon the achievement of targets based upon the total shareholder return ('TSR') of the Company's shares during that period, investment manager performance and stretching personal job objectives. All matching awards for executive directors are dependant solely upon TSR.

Matching awards made during the year were valued at £100,948 of which £76,322 related to awards with TSR performance conditions and £24,626 related to awards with other performance conditions. The fair value of the awards was based upon a share price of £27.98. For awards with TSR performance conditions a risk free rate of return of 4.19% and a dividend yield of 2.57% were assumed. For awards with other performance conditions the fair value of the award was taken as the share price on the date of the award less dividend payments until the award could be made with an allowance of 60% for the achievement of the performance objectives.

The charge to the income statement during the year and the closing liability for the cost of matching awards was £37,521 (nil) for the Company and £49,078 (nil) for the Group.

## 24 Pension Scheme

The Group sponsors two pension arrangements.

The Alliance Trust Companies' Pension fund (the 'Scheme') is a funded defined benefit pension scheme which is now closed to new entrants. Members continue to accrue benefits under the Scheme.

Employees who joined the Group pursuant to an offer made after 1 March 2005 are entitled to receive contributions into their own Self Invested Personal Pension ('SIPP') provided by Alliance Trust Savings Limited.

The disclosures which follow relate to the defined benefit pension scheme and reflect the December 2004 amendment to IAS 19.

### Participating Employers

Participating employers are the Company, The Second Alliance Trust PLC, Alliance Trust Savings Limited and Alliance Trust (Finance) Limited, (together, the 'Participating Employers').

### Valuation and Contributions

The last full actuarial valuation of the Scheme was carried out by a qualified independent actuary as at 1 April 2003 and has been updated on an approximate basis to 31 January 2006. Valuations are on the projected unit credit method.

The contributions made by the Participating Employers over the financial year have been £1,002,000. The level of contribution is due to be reviewed following the triennial valuation of the scheme as at 1 April 2006.

**Reconciliation of opening and closing balances of the present value of the defined benefit obligation**

| £000 | Year ending 31 January 2006 | Year ending 31 January 2005 |
|---|---|---|
| Defined benefit obligation at start of year | **15,652** | 12,365 |
| Current service cost | **1,096** | 1,022 |
| Interest cost | **847** | 705 |
| Actuarial loss | **1,994** | 1,663 |
| Benefits paid, death in service insurance premiums and expenses | **(152)** | (103) |
| Defined benefit obligation at end of year | **19,437** | 15,652 |

The Group has no unfunded pension obligations

**Reconciliation of opening and closing balances of the fair value of plan assets**

| £000 | Year ending 31 January 2006 | Year ending 31 January 2005 |
|---|---|---|
| Fair value of assets at start of year | **15,265** | 13,046 |
| Expected return on assets | **956** | 831 |
| Actuarial gains | **2,028** | 577 |
| Contributions by employer | **1,002** | 914 |
| Benefits paid, death in service insurance premiums and expenses | **(152)** | (103) |
| Fair value of assets at end of year | **19,099** | 15,265 |

**Total expense recognised in profit and loss account**

| £000 | Year ending 31 January 2006 | Year ending 31 January 2005 |
|---|---|---|
| Current service cost | **1,096** | 1,022 |
| Interest on pension scheme liabilities | **847** | 705 |
| Expected return on pension scheme assets | **(956)** | (831) |
| Total expense | **987** | 896 |

**Gains(losses) recognised in statement of recognised income and expense**

| | Year ending 31 January 2006 | Year ending 31 January 2005 |
|---|---|---|
| **Difference between expected and actual return on scheme assets:** | | |
| Amount (£000) | **2,028** | 577 |
| Percentage of scheme assets | **11%** | 4% |
| **Experience gains and losses arising on the scheme liabilities:** | | |
| Amount (£000) | **(125)** | (135) |
| Percentage of present value of scheme liabilities | **(1%)** | (1%) |
| **Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:** | | |
| Amount (£000) | **(1,869)** | (1,528) |
| Percentage of present value of scheme liabilities | **(10%)** | (10%) |
| **Total amount recognised in statement of recognised income and expense:** | | |
| Amount (£000) | **34** | (1,086) |
| Percentage of present value of scheme liabilities | **0%** | (7%) |

**Assets**

| | Year ending 31 January 2006 | Year ending 31 January 2005 | Year ending 31 January 2004 |
|---|---|---|---|
| Equities | **10,268** | 7,698 | 6,967 |
| Bonds | **8,391** | 7,061 | 5,785 |
| Property | **-** | - | 106 |
| Cash | **440** | 506 | 188 |

The assets are held independently of the assets of the Group in funds managed by the insurer of the scheme.
None of the fair values of the assets shown above include any of the Company's own financial instruments or any property occupied by, or other assets used by, the Company.

**Expected long term rates of return**

The expected long term return on cash is equal to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to UK long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities and property have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date.
The expected long term rates of return are as follows:

**Expected long term rates of return**

| | 31 January 2006 | 31 January 2005 | 31 January 2004 |
|---|---|---|---|
| Equities | **7.00%** | 7.00% | 7.00% |
| Bonds | **4.75%** | 5.25% | 5.25% |
| Property | **7.00%** | 7.00% | 7.00% |
| Cash | **4.50%** | 4.75% | 4.00% |
| Overall for scheme | **5.94%** | 6.09% | 6.53% |

**Actual return on plan assets**

The actual return on the plan assets over the year ending 31 January 2006 was 19.3%.

| **Assumptions** | **31 January 2006 % per annum** | 31 January 2005 % per annum | 31 January 2004 % per annum |
|---|---|---|---|
| Inflation | **3.00** | 3.00 | 2.75 |
| Salary increases | **4.00** | 4.00 | 3.75 |
| Rate of discount | **4.75** | 5.25 | 5.50 |
| Allowance for pension in payment increases of RPI or 5% p.a. if less | **3.00** | 3.00 | 2.75 |
| Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less | **3.00** | 3.00 | 2.75 |

**Present values of defined benefit obligations, fair value of assets and deficit**

| **£000** | **31 January 2006** | 31 January 2005 | 31 January 2004 |
|---|---|---|---|
| Present value defined benefit obligation | **19,437** | 15,652 | 12,365 |
| Fair value of plan assets | **19,099** | 15,265 | 13,046 |
| Surplus/(Deficit) in scheme | **(338)** | (387) | 681 |

In accordance with custom and practice since the establishment of the scheme in 1949, contributions to the scheme are made by the Company and the Second Alliance Trust in the ratio of 75:25 to the extent that they are not met by the other Participating Employers, which are in any event owned by the Company and the Second Alliance Trust in the same proportions. The Company has now entered into a formal arrangement with the Second Alliance Trust to share the benefit of any surpluses and the liability of any deficits in the ratio of 75:25. Accordingly, the cumulative amount of actuarial gains and losses recognised in the statement of recognised income and expenses of the Company since adoption of IAS19 is £254,000.

All actuarial gains and assets are recognised immediately. In accordance with the agreement with the Second Alliance Trust, 75% of the deficits shown above are those recognised in the balance sheet of the Company.

**Best estimate of contributions to be paid to plan for the year ending 31 January 2007**

The best estimate of contributions to be paid to the plan for the year ending 31 January 2007 is £996,000, being 22.1% of total pensionable salaries of Scheme members who remained in active employment at 31 January 2006.

**Amounts for the current and previous four years**

| **£000** | **2006** | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Fair value of assets | **19,099** | 15,265 | 13,046 | 10,287 |
| Defined benefit obligation | **19,437** | 15,652 | 12,365 | 12,251 |
| Surplus (deficit) in plan | **(338)** | (387) | 681 | (1,964) |
| Experience adjustment on plan liabilities | **(125)** | (135) | 1,169 | (762) |
| Experience adjustment on plan assets | **2,028** | 577 | 1,303 | (2,235) |
| Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities | **(1,869)** | (1,528) | 262 | (400) |

## 25 Explanation of transition to IFRS

This is the first year that the Group and Company have presented their financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 January 2005 and the date of transition to IFRS was therefore 1 February 2004.

## Consolidated income statement

### For year ended 31 January 2005

| | UK GAAP | | | Effect of | IFRS | | |
|---|---|---|---|---|---|---|---|
| **£000** | Revenue | Capital | Total | IFRS | Revenue | Capital | Total |
| **Income** | | | | | | | |
| UK franked dividends | 27,740 | - | 27,740 | - | 27,740 | - | 27,740 |
| UK interest | 1,236 | - | 1,236 | - | 1,236 | - | 1,236 |
| Overseas dividends | 16,083 | - | 16,083 | - | 16,083 | - | 16,083 |
| Mineral rights interest | 649 | - | 649 | - | 649 | - | 649 |
| **Investment income** | 45,708 | - | 45,708 | - | 45,708 | - | 45,708 |
| Deposit interest | 6,635 | - | 6,635 | - | 6,635 | - | 6,635 |
| Savings and pension plan charges | 2,275 | - | 2,275 | - | 2,275 | - | 2,275 |
| Miscellaneous | 169 | - | 169 | - | 169 | - | 169 |
| **Other income** | 9,079 | - | 9,079 | - | 9,079 | - | 9,079 |
| **Total income** | 54,787 | - | 54,787 | - | 54,787 | - | 54,787 |
| Total expenses | (9,504) | - | (9,504) | - | (9,504) | - | (9,504) |
| Realised gains(losses) on investments | - | 71,849 | 71,849 | - | | 71,849 | 71,849 |
| Increase in unrealised appreciation | - | 74,666 | 74,666 | (275) | - | 74,391 | 74,391 |
| Foreign exchange gains | - | 378 | 378 | - | - | 378 | 378 |
| **Net return before interest payable and taxation** | 45,283 | 146,893 | 192,176 | (275) | 45,283 | 146,618 | 191,901 |
| Interest payable | (1,604) | - | (1,604) | (97) | (1,701) | - | (1,701) |
| **Return before taxation** | 43,679 | 146,893 | 190,572 | (372) | 43,582 | 146,618 | 190,200 |
| Taxation | (4,759) | (601) | (5,360) | - | (4,759) | (601) | (5,360) |
| **Return after taxation** | 38,920 | 146,292 | 185,212 | (372) | 38,823 | 146,017 | 184,840 |
| Minority interest - equity | (259) | (23) | (282) | - | (259) | (23) | (282) |
| Dividends on preference stock - non-equity | (97) | - | (97) | 97 | - | - | - |
| **Return attributable to equity shareholders** | 38,564 | 146,269 | 184,833 | (275) | 38,564 | 145,994 | 184,558 |
| Dividends on ordinary stock - equity | (36,162) | - | (36,162) | 378 | (35,784) | - | (35,784) |
| Transfer to reserves | 2,402 | 146,269 | 148,671 | 103 | 2,780 | 145,994 | 148,774 |

## Reconciliation of consolidated shareholders' funds

| £000 | 31 January 2005 | 31 January 2004 |
|---|---|---|
| **UK GAAP shareholders funds** | **1,633,124** | 1,485,819 |
| **Standards applicable to all periods:** | | |
| Proposed dividend | **18,270** | 17,892 |
| Property revaluation | **(250)** | (250) |
| Investments revaluation | **(4,225)** | (3,950) |
| Preference stock | **(2,200)** | (2,200) |
| Employee benefits | **(203)** | 358 |
| | **1,644,516** | 1,497,669 |
| **Standards applicable from 1 February 2005:** | | |
| None | - | - |
| **Shareholders funds under IFRS** | **1,644,516** | 1,497,669 |

## Reconciliation of consolidated balance sheet
### As at 31 January 2005

| £000 | UK GAAP | Effect of IFRS | IFRS |
|---|---|---|---|
| **Fixed assets** | | | |
| Office premises | 700 | (250) | 450 |
| Investments | 1,591,536 | (4,225) | 1,587,311 |
| Deferred tax asset | 55 | 87 | 142 |
| | 1,592,291 | (4,388) | 1,587,903 |
| **Current assets** | | | |
| Debtors | 8,146 | - | 8,146 |
| Bank deposits | 140,212 | - | 140,212 |
| Cash at bank and in hand | 1,626 | - | 1,626 |
| | 149,984 | - | 149,984 |
| **Creditors:** amounts falling due within one year | (109,151) | 18,270 | (90,881) |
| **Net current assets** | 40,833 | 18,270 | 59,103 |
| **Total assets less current liabilities** | 1,633,124 | 13,882 | 1,647,006 |
| **Creditors:** amount falling due after more than one year | | | |
| Retirement benefit obligation | - | (290) | (290) |
| Preference shares | - | (2,200) | (2,200) |
| | 1,633,124 | 11,392 | 1,644,516 |
| **Capital & reserves** | | | |
| Called-up share capital | 14,800 | (2,200) | 12,600 |
| Capital reserve - unrealised | 1,066,922 | (4,475) | 1,062,447 |
| Capital reserve - realised | 493,481 | (203) | 493,278 |
| Revenue reserve | 48,091 | 18,270 | 66,361 |
| | 1,623,294 | 11,392 | 1,634,686 |
| Minority interest | 9,830 | - | 9,830 |
| **Total shareholders' funds** | 1,633,124 | 11,392 | 1,644,516 |

# 26 Explanation of transition to IFRS continued

## Company income statement
**For year ended 31 January 2005**

| | UK GAAP | | | | IFRS | | |
|---|---|---|---|---|---|---|---|
| **£000** | Revenue | Capital | Total | Effect of IFRS | Revenue | Capital | Total |
| **Income** | | | | | | | |
| UK franked dividends | 27,740 | - | 27,740 | - | 27,740 | - | 27,740 |
| UK interest | 375 | - | 375 | - | 375 | - | 375 |
| Overseas dividends | 16,083 | - | 16,083 | - | 16,083 | - | 16,083 |
| Mineral rights interest | 649 | - | 649 | - | 649 | - | 649 |
| **Investment income** | 44,847 | - | 44,847 | - | 44,847 | - | 44,847 |
| Deposit interest | 2,632 | - | 2,632 | - | 2,632 | - | 2,632 |
| Miscellaneous | 11 | - | 11 | - | 11 | - | 11 |
| **Other income** | 2,643 | - | 2,643 | - | 2,643 | - | 2,643 |
| **Total income** | 47,490 | - | 47,490 | - | 47,490 | - | 47,490 |
| Total expenses | (5,193) | - | (5,193) | - | (5,193) | - | (5,193) |
| Realised gains on investments | - | 71,849 | 71,849 | - | | 71,849 | 71,849 |
| Increase in unrealised appreciation | - | 75,419 | 75,419 | (275) | - | 75,144 | 75,144 |
| Foreign exchange gains | - | 378 | 378 | - | - | 378 | 378 |
| **Net return before interest payable and taxation** | 42,297 | 147,646 | 189,943 | (275) | 42,297 | 147,371 | 189,668 |
| Interest payable | (77) | - | (77) | (97) | (174) | - | (174) |
| **Return before taxation** | 42,220 | 147,646 | 189,866 | (372) | 42,123 | 147,371 | 189,494 |
| Taxation | (4,335) | (601) | (4,936) | - | (4,335) | (601) | (4,936) |
| **Return after taxation** | 37,885 | 147,045 | 184,930 | (372) | 37,788 | 146,770 | 184,558 |
| Dividends on preference stock - non-equity | (97) | - | (97) | 97 | - | - | - |
| **Return attributable to equity shareholders** | 37,788 | 147,045 | 184,833 | (275) | 37,788 | 146,770 | 184,558 |
| Dividends on ordinary stock - equity | (36,162) | - | (36,162) | 378 | (35,784) | - | (35,784) |
| Transfer to reserves | 1,626 | 147,045 | 148,671 | 103 | 2,004 | 146,770 | 148,774 |

## Reconciliation of company shareholders' funds

| **£000** | 31 January 2005 | 31 January 2004 |
|---|---|---|
| **UK GAAP shareholders funds** | 1,623,294 | 1,476,271 |
| **Standards applicable to all periods:** | | |
| Proposed dividend | 18,270 | 17,892 |
| Property revaluation | (250) | (250) |
| Investments revaluation | (4,225) | (3,950) |
| Preference stock | (2,200) | (2,200) |
| Employee benefit | (203) | 358 |
| | 1,634,686 | 1,488,121 |
| **Standards applicable from 1 February 2005:** | | |
| None | - | - |
| **Shareholders funds under IFRS** | 1,634,686 | 1,488,121 |

## Reconciliation of company balance sheet
### As at 31 January 2005

| £000 | UK GAAP | Effect of IFRS | IFRS |
|---|---|---|---|
| **Fixed assets** | | | |
| Office premises | 700 | (250) | 450 |
| Investments | 1,604,513 | (4,225) | 1,600,288 |
| Deferred tax assets | 25 | 87 | 112 |
| | 1,605,238 | (4,388) | 1,600,850 |
| **Current assets** | | | |
| Debtors | 6,417 | - | 6,417 |
| Bank deposits | 39,747 | - | 39,747 |
| Cash at bank and in hand | 3 | - | 3 |
| | 46,167 | - | 46,167 |
| **Creditors:** amounts falling due within one year | (28,111) | 18,270 | (9,841) |
| **Net current assets** | 18,056 | 18,270 | 36,326 |
| **Total assets less current liabilities** | 1,623,294 | 13,882 | 1,637,176 |
| **Creditors:** amount falling due after more than one year | | | |
| Retirement benefit obligations | - | (290) | (290) |
| Preference shares | - | (2,200) | (2,200) |
| | 1,623,294 | 11,392 | 1,634,686 |
| **Capital & reserves** | | | |
| Called-up share capital | 14,800 | (2,200) | 12,600 |
| Capital reserve - unrealised | 1,065,623 | (4,475) | 1,061,148 |
| Capital reserve - realised | 509,961 | (203) | 509,758 |
| Revenue reserve | 32,910 | 18,270 | 51,180 |
| | 1,623,294 | 11,392 | 1,634,686 |

## 27 Explanation of transition to IFRS continued

The detailed adjustments made to conform to IFRS are summarised below, taking into account the initial transition to IFRS:

**IAS 19** (Revised) 'Employee Benefits': assets and liabilities and the appropriate deferred tax credits of the Group's pension scheme are now fully recognised on the balance sheets. Actuarial gains and losses are recognised in full in the period in which they occur through equity.

**IAS 39** (Revised) 'Financial Instruments: Recognition and Measurement': IFRS introduces standard methodology for valuing investments. The Company has designated its securities portfolio to be fair value through profit or loss resulting in a move from a mid price to a bid price basis and a change in the value of the investment portfolio.

**IAS 32** (Revised) 'Financial Instruments: Disclosure and Presentation': Dividends payable on preference stock are to be presented in the income statement along with interest on other liabilities.

**IAS 10** (Revised) 'Events After the Balance Sheet Date': Ordinary dividends declared or proposed after the balance sheet date are no longer recognised as a liability in the financial statements. The liability for dividends declared has been removed from the Balance Sheet, increasing the Company's stated net asset value.

**IAS 16** (Revised) 'Property, Plant and Equipment': office premises were previously stated on a value in use basis. The valuation now requires to be stated as the open market value.

### Adjustments to consolidated income statements

| £000 | IAS 39: revaluation of investments | IAS 32: reclass of preference stocks | Total |
|---|---|---|---|
| Decrease in unrealised appreciation | (275) | - | **(275)** |
| Interest payable | - | (97) | **(97)** |
| Dividends on preference stock | - | 97 | **97** |
| Transfer to reserves | (275) | - | **(275)** |

**Adjustments to consolidated balance sheets**

| £000 | IAS 19: employee benefits | IAS 40: revaluation of office premises | IAS 39: revaluation of investments | IAS 10: dividends | Total |
|---|---|---|---|---|---|
| **As at 1 February 2004 (opening balance sheet)** | | | | | |
| Investments | - | - | (3,950) | - | **(3,950)** |
| Fixed assets - office premises | - | (250) | - | - | **(250)** |
| Non-current assets | 511 | - | - | - | **511** |
| Net current assets | - | - | - | 17,892 | **17,892** |
| Non-current liabilities | (153) | - | - | - | **(153)** |
| | 358 | (250) | (3,950) | 17,892 | **14,050** |
| **As at 31 January 2005** | | | | | |
| Investments | - | - | (4,225) | - | **(4,225)** |
| Fixed assets - office premises | - | (250) | - | - | **(250)** |
| Non-current assets | 87 | - | - | - | **87** |
| Net current assets | - | - | - | 18,270 | **18,270** |
| Non-current liabilities | (290) | - | - | - | **(290)** |
| | (203) | (250) | (4,225) | 18,270 | **13,592** |

**Adjustments to company income statements**

| £000 | IAS 39: revaluation of investments | IAS 32: reclass of preference stocks | Total |
|---|---|---|---|
| Decrease in unrealised appreciation | (275) | - | **(275)** |
| Interest payable | - | (97) | **(97)** |
| Dividends on preference stock | - | 97 | **97** |
| Transfer to reserves | (275) | - | **(275)** |

**Adjustments to company balance sheets**

| £000 | IAS 19: employee benefits | IAS 40: revaluation of office premises | IAS 39: revaluation of investments | IAS 10: dividends | Total |
|---|---|---|---|---|---|
| **As at 1 February 2004 (opening balance sheet)** | | | | | |
| Investments | - | - | (3,950) | - | **(3,950)** |
| Fixed assets - office premises | - | (250) | - | - | **(250)** |
| Non-current assets | 511 | - | - | - | **511** |
| Net current assets | - | - | - | 17,892 | **17,892** |
| Non-current liabilities | (153) | - | - | - | **(153)** |
| | 358 | (250) | (3,950) | 17,892 | **14,050** |
| **As at 31 January 2005** | | | | | |
| Investments | - | - | (4,225) | - | **(4,225)** |
| Fixed assets - office premises | - | (250) | - | - | **(250)** |
| Non-current assets | 87 | - | - | - | **87** |
| Net current assets | - | - | - | 18,270 | **18,270** |
| Non-current liabilities | (290) | - | - | - | **(290)** |
| | (203) | (250) | (4,225) | 18,270 | **13,592** |

## Incorporation

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

## General Enquiries

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

**Meadow House**
**64 Reform Street**
**Dundee DD1 1TJ**

tel: 01382 201700 fax: 01382 225133
email: contact@alliancetrusts.com

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

## Investor Relations

Our Head of Investor Relations is Kelly O'Donnell who can be contacted at our registered office (details above).

Our website www.alliancetrusts.com contains information about the Company, including daily price, net asset value and discount information. The Corporate Governance section of the website contains the terms of reference of the Audit, Remuneration and Nomination Committees.

## Registrars

Our registrars are

**Computershare Investor Services plc**
**Lochside House**
**7 Lochside Avenue**
**Edinburgh Park**
**Edinburgh EH12 9DJ**

tel: 0870 702 0000

Change of address notifications and registration enquiries for shareholdings registered in your own name should be sent to the Company's registrars, who should also be contacted if you would like dividends on shares registered in your own name to be sent to your bank or building society account. You may check your holdings and view other information about Alliance Trust shares registered in your own name at www.computershare.com.

## Data Protection

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

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

## Electronic Communications

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

## Taxation

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

## Income Tax

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

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

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

## Capital Gains Tax

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

## Risks

If you wish to acquire shares in the Company, you should take professional advice as to whether an investment in our shares is suitable for you. You should be aware that:

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

## Risks (continued)

### Gearing

Companies can borrow money to make further investments. This is commonly referred to as gearing. The risk is that when money is repaid by the company, the value of these investments may not be enough to cover the borrowing and the interest costs, and the company makes a loss. If the company's investment falls in value, gearing will increase the amount of the loss in value to investors. The more highly geared the company, the greater the effect will be.

### Derivatives

Investment trusts can make use of derivatives. Derivatives are most often used to offset possible adverse currency and market movements. As a result there is a risk that potential gains maybe restricted in a rising market. If used for speculative purposes, there would be a high risk of loss, due to the highly volatile nature of such investments.



## Table of Indices (sterling adjusted) to 31 January 2006

| | 1 year absolute | 10 years absolute | 10 years compound |
|---|---|---|---|
| FTSE All-Share Index | 20.0% | 59.0% | 4.7% |
| FTSE World Index | 23.7% | 53.7% | 4.4% |
| MSCI World Index | 22.0% | 49.6% | 4.1% |
| FTSE World ex UK Index | 24.3% | 53.4% | 4.4% |
| US Standard & Poor's 500 Index | 15.0% | 71.1% | 5.5% |
| NASDAQ Composite Index | 18.6% | 85.0% | 6.3% |
| Wilshire 5000 Total Market Index | 18.1% | 77.3% | 5.9% |
| FTSE World Europe ex UK Index | 25.4% | 93.6% | 6.8% |
| FTSE Asia Pacific ex Japan Index | 32.1% | -0.1% | 0.0% |
| Tokyo Topix Index | 40.0% | -17.7% | -1.9% |
| Hang Seng Index | 22.5% | 17.5% | 1.6% |
| UK Investment Property Databank | 12.4% | 63.8% | 5.1% |
| Retail Price Index | 2.4% | 28.8% | 2.6% |
| Consumer Price Index | 1.9% | 13.7% | 1.3% |

## Appreciation /(Depreciation) of Sterling against Major Currencies to 31 January 2006

| | 1 year absolute | 10 years absolute |
|---|---|---|
| (Depreciation)Appreciation of £ against US$ | (5.8)% | 17.6% |
| Appreciation of £ against Japanese Yen | 6.6% | 28.8% |
| Appreciation of £ against Euro* | 1.2% | 19.5% |

* Appreciation of £ against ECU up to Jan 1999

# Key Dates



## Annual General Meeting

**The 118th Annual General Meeting of the Company will be held at 11.30am on Wednesday 10 May 2006 at the Apex Hotel, Dundee. The notice of the meeting is sent separately to shareholders.**

| Financial Calendar | | Date |
|---|---|---|
| **Final Dividend and AGM** | **for the year to 31 January 2006** | |
| | Ex-dividend date | 19 April 2006 |
| | Annual General Meeting | 10 May 2006 |
| | Proposed final dividend payment date | 12 May 2006 |

| AITC Events Calendar | Date | Location |
|---|---|---|
| Scottish - Private Investor Roadshow* | Wednesday 14 June 2006 | Inchyra Grange Hotel, Polmont, Falkirk |
| Exeter - Private Investor Roadshow | Wednesday 13 September 2006 | The Lord Haldon Hotel, Dunchideock, Exeter |
| Surrey - Private Investor Roadshow | Wednesday 15 November 2006 | Sandown Park Racecourse, Esher, Surrey |

* We will be presenting as part of this AITC event.

**If you wish to attend any of the events organised by the AITC at which we will be exhibiting, you should contact the AITC direct by calling the Events Team on 020 7282 5564.**

| IX Investor Events | Date | Location |
|---|---|---|
| | 5/6 May 2006 | Olympia Centre, London |
| | 20/21 October 2006 | Olympia Centre, London |

**If you'd like to receive free tickets for the IX Investor events, please call 0870 020 3466, or book online at www.theinformationexchange.com/events**

| Investor Chronicle Roadshows | Date | Location |
|---|---|---|
| | 16 May 2006 | Manchester |
| | 18 May 2006 | Edinburgh |
| | 23 May 2006 | London |
| | 9 November 2006 | London |
| | 14 November 2006 | Manchester |
| | 16 November 2006 | Edinburgh |

**If you'd like to receive free tickets for the Investors Chronicle Roadshows, please call 0208 950 9117, or email ft@bellsize.co.uk**

Details of any further events which we will be running or attending will be posted on our website, **www.alliancetrusts.com**. If you have any questions or comments, please call our Events Manager, **Alison Henderson** on **01382 306047**, or email **events@alliancetrusts.com**

The Alliance Trust PLC
Meadow House
64 Reform Street
Dundee DD1 1TJ (Registered Office)

Tel: 01382 201700
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