THE ALLIANCE TRUST PLC

REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 JANUARY 2002

Company No. SC 1731

contents

chairman's statement

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

Last year, for the first time since the 1970s, the major world economies faced the prospect of a synchronised recession. The corporate sector was plagued by the excesses of acquisition and technology driven expansion, over-borrowing and doubtful accounting practices, and stock markets were depressed by crystallising risks and falling returns.

Against this background a reduced valuation was predictable, but the Alliance achieved one that fell less than that of most of its competitors with a portfolio of stocks which outperformed their markets, an increased total dividend and a stronger market for the Company's stock. We have been cautious over the last few years and, by maintaining a traditional approach to investment, we have avoided the worst. Our portfolio is widely diversified and we pick companies which are willing and able to pay dividends, avoiding those we don't understand. We adopt conservative accounting policies, we watch costs and we have not added to risk by borrowing money. These policies have once again proved sound.

Now that markets have fallen and companies are finding it hard to earn profits, the conventional wisdom of the superiority of equity investment is being questioned. This questioning will continue while the excesses of the last few years are purged, and there will be opportunities in the near future to pick up attractive investments at lower prices. However, we continue to believe that, for the genuinely long term investor, equities are likely to prove rewarding, provided risks are diversified.

During the year we continued to invest in our infrastructure and have been pleased with the results even at this early stage. Our investment team is robust. Alliance Trust Savings (ATS) continues to expand, despite weak market conditions, and we have been particularly pleased with the rapid take up of the Alliance Select Pension. This speaks well for future demand for the service we offer stockholders - a core investment, which is well managed and supported by an efficient delivery system.

This service is unique in this industry and is built on the key advantages of a self-managed investment trust which is both large enough to benefit from economies of scale and has been able to develop its own savings products and the resources necessary to serve its stockholders direct. The long established practice of the Alliance Trust employing its own staff means that many of the decisions which the Board takes are akin to those of a commercial company and require senior executive involvement. We prefer these executives to take responsibility as directors and, with a view to continued expansion and an orderly succession, we are proposing to increase the maximum number of directors from eight to nine. This will allow up to four executive directors whilst maintaining the required majority of independent non-executives on the Board.

In view of current debates elsewhere, I should like to record my appreciation of the work of my non-executive colleagues who are most diligent and conscientious, both in applying their considerable combined knowledge and experience in helping to determine the future strategy and development of the Company and in carrying out their corporate governance responsibilities. They are a key component in our success. This year we were joined by Lesley Knox but we shall lose Nelson Robertson who retires by rotation and, at 68, is not seeking re-election. We are very grateful for the benefit of his wide experience in the financial services industry and for his sound guidance over the last 6 years.

Bruce W M Johnston

financial highlights

performance years to 31 january

		year to 31/01/02	year to 31/01/01	1 year	10 year
income					
dividends	interim paid 12 October 2001	28.0p	26.0p		
	final proposed 30 April 2002	40.5p	40.5p		
	total	68.5p	66.5p		
compound rate of income growth - p.a.				3.0%	4.8%
average annual rate of inflation (RPI)				1.3%	2.5%
net asset value (NAV)					
NAV per ordinary stock unit (at 31 January)		£33.14	£39.12		
NAV - compound rate of capital growth - p.a.				-15.3%	8.0%
total return on assets – p.a. (NAV) (1)				-13.5%	10.6%
total return on FTSE Actuaries All-Share Index – p.a. (2)				-15.5%	10.9%
total expense ratio (company expenses ÷ closing NAV)		0.19%	0.14%		
equity returns					
price per ordinary stock unit (at 31 January)		£29.24	£33.57½		
discount (at 31 January)		11.6%	14.2%		
total return on stockholder's investment (stock price) – p.a. (1)				-10.9%	10.9%
total return on FTSE Actuaries All-Share Index – p.a. (2)				-15.5%	10.9%

Note: 1 These returns include income and capital gains, with the income being the net yield on the portfolio/stock.

2 *The return on the FTSE Actuaries All-Share Index is computed on* the same basis with the income being the net yield on the index.

company record years to 31 january

year	total assets less current liabilities £m	total income £m	net revenue available for ordinary stockholders £m	ordinary stock earnings pence per stock unit	ordinary stock dividend (net) pence per stock unit	net asset value £ per stock unit
1992	779.6	27.8	21.9	43.50	43.00	15.39
1993	900.6	28.8	23.0	45.70	45.00	17.79
1994	1,078.9	29.7	23.8	47.28	47.00	21.33
1995	954.6	32.7	27.1	53.79	50.00	18.85
1996	1,228.3	34.4	28.4	56.30	53.00	24.28
1997	1,358.8	34.9	29.5	58.61	55.50	26.88
1998	1,564.6	38.8	32.7	64.89	59.00	30.97
1999	1,729.9	40.1	33.2	65.95	62.50	34.25
2000	1,888.4	41.0*	34.7	68.86	64.50	37.39
2001	1,975.6	40.3	33.9	67.26	66.50	39.12
2002	**1,674.0**	**45.0**	**37.8**	**74.80**	**68.50**	**33.14**

* From 2000, income excludes the associated tax credit.

outlook

Although we cater for a predominantly UK investor base, we face a world where the best opportunities are not necessarily domestic

We invest and work in a business whose 'value' is *measured on a minute by minute basis but whose* objectives are long term, measured in years, if not decades. In this section of the Report we look beyond last year's results to the position of the Company going forward.

investment principles

Following a year of stock market falls and at a time of major changes in many aspects of investment, from regulation to the provision for long term pension liabilities, the outlook is particularly uncertain. We have no crystal ball and reproduce our 100 year performance chart not as a signpost to the future but as a means of putting the present into perspective and to illustrate some of the key principles lying behind our investment process.

The first principle is the importance of income and the fact that growth of capital and of income are inseparable over the long term. The second is that over long periods disasters are bound to occur, and diversification is the only way to mitigate their damage. Third, there is no golden long term investment formula - the asset types in which the Alliance Trust has invested have changed gradually over the century, and without the process of constant revitalisation, the sustained long term growth would not have been achieved.

investment process

To address our objective we employ a dedicated team of 19 investment staff, assessing opportunities, monitoring and managing our portfolio of over 400 companies. Our preference is for equity investments, where earning a good return on capital over the long term is effectively delegated to those best able to achieve it. We seek well managed companies which, ideally, offer the prospect of income growth and we expect to be long term investors in them. We diversify the overall risk to the portfolio from mishaps and from changes in the business climate by investing in many companies across many sectors and economies. Our portfolio does not mirror any specific index. Although we cater for a predominantly UK investor base, we face a world where the best opportunities are not necessarily domestic and investment prospects everywhere are strongly influenced by global factors.

alliance return and inflation over 100 years

source: internal

current investment outlook

The influence of the US economy has never been as strong as at present and its recovery holds the key to the next global upswing. Following the cuts in US interest rates and the relaxation of fiscal policy, there are now some encouraging signs of recovery there. This will be driven initially by government spending and a gradual rebuilding of inventories, but the maintenance of consumer confidence will also be essential. A broader base is unlikely to develop until the corporate sector becomes more profitable and has confidence to increase investment spending. Should the US recovery progress, it would soon benefit both Europe and Asia, although problems are more likely to linger in Japan.

Companies face strong global competition and there is still only limited scope for price increases. Markets are likely to be volatile and preoccupied by capital raising exercises, with changes in pension provision and by further accounting concerns after the Enron collapse. Investors have become more risk-averse as they continue to adjust down their expectations of returns in a low inflation environment. *Given this scenario we believe equities will offer good* opportunities and would expect to invest further cash on a highly selective basis over the coming year.

returns to investors

Our investment efforts are concentrated on growing the income and assets of the Company with investors receiving the benefits through dividends and the eventual disposal of their stock. To investors, short term returns will depend mainly on market prices but longer term returns are more likely to at least mirror those earned by the Company.

Most of our stockholders have long term objectives and this is illustrated by the relatively low levels of turnover on the stock market. Last year, trading across the Stock Exchange amounted to less than 10% of the stock issued, and in ATS the turnover equated to an average holding period of over 25 years. Our size and the activities of the London market makers ensure that there is good liquidity and, with one of the lowest bid-offer spreads, averaging less than 1%, dealing in our stock is relatively inexpensive.

The price of the stock is determined by the interaction of supply and demand at any one time, and we take no part in this process - indeed to do so would introduce conflicts of interest between the Company and its stockholders. We do however recognise the need for a large and growing stockholder base and we are encouraging this through the Company's savings business and its investor relations activities. These initiatives are of growing significance.

savings strategy

A transformation is taking place in the savings industry which will have significant effects over the coming year, particularly in the areas of pension provision and financial product marketing. ATS is in a strong position to benefit from these changes. It has a portfolio of cost-efficient products, a flexible self-select model for the investor, an in-house service capability, and a distribution system which is not dependent on commission based advisors. ATS is financially self-supporting, and we expect to see significant further expansion, whilst being mindful of the challenges which change brings.

ten year growth

source: internal

To achieve this growth we have started to raise both our public profile and our marketing efforts in areas where a little expenditure and effort can go a long way and where new customers quickly contribute to the business through economies of scale. Our main investment however, is directed towards improving systems, service and products which benefit existing investors directly.

Over the last two years we have invested in the first phase of "ATS On Line", our Internet access facility and in the development of the Alliance Select Pension products. ATS On Line has the potential not only to enhance services to investors but also to save costs and improve efficiency as we develop it over the coming years. The investment in our self-invested personal pension will also continue, as we see this as a key component in our savings business strategy going forward, giving investors a flexible, tax efficient means of providing for their long term pension needs in a highly cost-efficient manner. For the Company it has huge potential as a means of growing and developing its natural long term investor base.

'directors' report
results and performance

A progressive dividend policy can be maintained without changing our conservative accounting practices or reducing the quality of our portfolio

In this section of the report we explain the financial results and performance for the year to 31st January 2002.

earnings

The 11% increase in our investment business earnings to 74.8p per ordinary stock unit again reflects a number of special factors, most important of which were the receipt of 'one off' dividends from companies such as Thames Water, Royal Bank of Scotland, Wolverhampton and Dudley Breweries, and from UBM, which alone added 3p to earnings. These special dividends distort the flow of income each year, but they are by their nature unsustainable. We therefore pay particular attention to the regular underlying dividend flows. Over the last year, despite a number of prominent cuts, most notably from BT, these flows grew and we also benefited from the purchase of some good quality preference shares. At the year end the underlying net yield on our net assets, which are 95% invested in equities, stood at 2.1%.

Income from our mineral interests blossomed, contributing over £0.75m, of which 80% came from gas royalties, boosted by higher prices in the US and by increased production from previously unexploited coal areas.

Expenses increased by 10.5% mainly due to further recruitment of investment staff, and the total expense ratio increased to 0.19% of net assets, or 0.13% after tax relief.

dividend

source: internal

dividend

As indicated at the half way stage, we are recommending a final dividend of 40.5p per ordinary stock unit payable on 30th April 2002. This results in a 3% increase on last year's total dividend and again shows growth ahead of inflation, which at the end of the year reached 1.3%.

Although these numbers are small compared with those which many have come to expect over the last decade when inflation has been higher, they are nevertheless important. As is clear from the chart on Page 4, dividend growth is a critical component of long term investment returns and, although we have seen capital values fall over the last year, our experience has been that there is still growth being generated from our portfolio. Together with the healthy state of our reserves, this gives us confidence that a progressive dividend policy can be maintained without changing our conservative accounting practices or reducing the quality of our portfolio.

capital performance

To achieve our objective of providing a long term store of value as well as a growing dividend we diversify our portfolio over a number of different asset classes with the proportions changing over time as opportunities arise and valuations rise and fall. The table below compares our own capital returns in net asset value and stock price terms, against various stock market indices over one and ten years, against UK retail prices and against the total return on cash and fixed interest government securities. This shows that, over both periods we outperformed the UK stock market. The table below explains how much of this performance was attributable to our investing outside the UK stock market and how much was attributable to our investments doing better than their own market averages

capital performance attribution analysis	1 year	10 year
increase in UK FTSE Actuaries All-Share Index	-17.6%	103.3%
additional growth from overseas	-0.7%	23.9%
performance of stocks	3.0%	-11.9%
increase in net asset value	-15.3%	115.3%

Our US investments performed well last year, both against other markets and against the US indices but this out performance was diluted by sharp market falls in Europe and Japan over the year. Over 10 years our investments have broadly been in the right places but the appreciation was not as great as it could have been if we had been full participants in the US technology boom. We now manage over 50% of our portfolio on a global industry basis and, analysed this way, the last year's out performance came primarily from our global pharmaceutical and banking stocks as well as from our defensive domestic US and UK holdings. The insurance sector was the main restraint on performance. Further details of our activity, the portfolio, the stocks and the investment background are given on pages 9 to 20.

Over the year the stock price fell 12.9%, a fall mitigated by a narrowing of the discount to which the stock price stands to the net asset value. This followed an improvement in sentiment driven by the steady demand for stock through ATS and a more general recognition of our strengths and relative performance.

comparative capital values to 31 january 2002

compound annual % return	1 year	10 year
Alliance Trust net assets	-15.3%	8.0%
Alliance Trust stock price•	-12.9%•	7.9%•
FTSE Actuaries All-Share Index †	-17.6%	7.4%
US Standard and Poor's 500 Index (£)†	-14.5%	13.4%
FTSE WI Europe (ex UK) (£)†	-26.0%	10.1%
Tokyo (£)†	-32.8%	-3.4%
Retail Price Index	1.3%	2.5%
Redemption yield on UK gilts (before tax)*	5.3%	9.4%
Cash (net interest; deposit of £25,000 +; < 90 days notice - Standard and Poor's)**	3.0%	4.5%

† Source: Thomson Financial Datastream * Source: Bloomberg ** Source: AITC

Past performance is not necessarily a guide to future performance. Investment in the Alliance Trust does not include security of capital which is afforded under a deposit with a bank or building society.

• In this annual report, as published, the 1 year and 10 year figures for the compound annual percentage return on the Alliance Trust stock price were incorrectly shown as the total return figures (1 year -10.9% and 10 year +10.9%). The correct capital return figures (1 year -12.9% and 10 year +7.9%) are now shown. The total return figures are shown in the financial highlights on page 3.

results and performance

savings business performance

ATS's objective is to provide its customers with ways to enhance the returns on their investments and to grow its customer base to provide an increasing pool of investors with the potential of increased demand for the Trusts' stock, all on a self-financing basis.

Against the background of falling markets and falling demand for equity investments from private investors, most notably seen in the fact that retail sales of unit trusts dropped 47.8% in 2001, ATS has had a very successful year. Net inflows of funds increased by 4% to £127m, customer numbers increased by 7% to 33,786, and the holdings of Alliance Trust stock increased by 15% to 12.6% of the total issued ordinary stock.

Gross revenue was virtually unchanged at £4.1m, with the business growth being offset by lower interest rates and the revenue lost when Single Company PEPs were merged with General PEPs in April 2001. Pre-tax profits fell to £1.1m., a 9.7% return on capital, largely due to the extra costs of a number of specific development projects: in particular the raising of our profile through investor seminars, visits and press contacts; the development and launch of the enhanced Alliance Select Pension, and the completion of the first stage of our web project, "ATS On Line", which is now available to ATS investors. Staff in the front line, dealing directly with investors, now number 30 and, together with those supporting the business in management, IT, design, operations, accounts, control, compliance and internal audit functions, the total dedicated to this business now exceeds 70.

savings products

Alliance Select PEP. This continues to attract funds, even though closed for new subscriptions since 1999. Investors transferred in more assets from other managers than we lost through withdrawals, transfers out and deaths combined. On 6th April 2001 we saw two important Government rule changes. First, Single Company PEPs were allowed to be combined with General PEPs, and we completed the merger on the day of the change. This greatly enhanced the efficiency of investors' accounts and helped attract more transfers from other managers. Second, the 'qualifying investment' rule was abandoned thus allowing unrestricted investment into the Alliance Trusts and at the same time we increased investors' options by reducing the minimum Alliance Trusts holding requirement to one stock unit, thereby aligning the PEP with the other products. We have since seen a steady accretion to the proportion of funds held in the Alliance Trusts.

Alliance Select ISA. Although we increased our penetration of the ISA market with an increase in the investor base of 17%, and increased revenue, cash inflows at £55m were 21% lower than in 2001, reflecting the general move by the public towards cash ISAs during difficult markets. Demand for our own Cash ISA increased and, significantly, deposit levels in the Select ISA rose by 25%.

Alliance Select Investment Plan. This remained popular, particularly for investing for children, for trustees and for regular saving as well as a general portfolio service. Plan numbers increased by 13%, with net inflows at £25m.

Alliance Select Pension. The tax rules on pension contributions were changed in April 2001 at the time Stakeholder pensions were introduced, and this enabled us to launch simpler and more effective pension products not only for the employed but also to extend them to those without earnings, including children. These products enjoy the same tax advantages as a Stakeholder pension but may work out to be considerably more economical. They have been very well received, the number of investors has increased by 114%, net cash inflows have increased by 81% to £29m, and the repeat subscription rate now exceeds 75%. Significantly, there has been a fall in the average age of applicants to 42, with over 25% of funds invested in the Alliance Trusts.

ATS growth by product over the year to 31 january 2002	investors		investors' assets*	
	numbers	change	£m	change
Investment Plan	8,606	13%	121	5%
PEP	19,482	-3%	732	-13%
ISA	14,629	17%	140	41%
Pension Plan	2,725	114%	62	55%
Total	**33,786** †	**7%**	**1055**	**-4%**

* These included £185.5m and £95.2m of stock in the Alliance Trust and the Second Alliance Trust respectively (valued at 31 January 2002)
† Some investors have more than one Plan.

investment background

Global recession loomed for the first time in many years

industrial production

source: Thomson Financial Datastream

Our investment approach emphasises the selection of individual stocks but the decisions we make must take account of prevailing economic, business and financial market conditions. We comment below on the conditions faced during our last financial year and describe our position as at 31st January 2002. The portfolio is then reviewed on pages 13 to 20.

economies

Last year was particularly difficult for the global economy. The US continued to slow significantly following its previous investment-led boom, and this downturn was soon replicated in both Japan and Germany. With the world's three largest economies contracting simultaneously for the first time since 1974, it became almost impossible for production in any region to escape unscathed, and global recession loomed for the first time in many years.

Policy makers across the world took action to alleviate the slowdown, using a combination of lower interest rates, higher government spending and significant tax cuts but, before this policy had time to become effective, the world-wide shock stemming from events on September 11th brought further risks to the prospect of returning to growth. This additional threat to economic activity encouraged central banks to accelerate the easing of monetary policy, and US short term interest rates were eventually cut to 1.75%, their lowest level in 40 years. Although monetary stimulus of this scale would normally raise fears of inflation, this threat was mitigated by the significant drop in energy prices which took place over the year, and by the continued strength of the US dollar throughout these turbulent times.

Whilst central banks were generally united in their willingness to ease monetary policy, some faced restrictions on their ability to be as aggressive as the US Federal Reserve. This was certainly the case in Europe where the lingering effects of Euro weakness, and a previous spike in energy prices, had pushed inflation above the European Central Bank's target levels, causing it to act more cautiously. In the UK, manufacturing continued to suffer from the relatively high level of sterling, and global overcapacity in many industries, but overall economic growth held up remarkably well due to the ongoing robustness of domestic demand. Rising house prices, stable employment conditions, real earnings growth and falling interest rates all added to the resilience of the consumer sector and encouraged a significant increase in the level of household debt. This may prove to be a problem in the longer term but it enabled the UK to achieve the best short-term growth prospects of all its G7 peers.

investment background

Unfortunately, the converse was true in Japan which fell once more into recession over the course of the year, despite two supplementary budgets and interest rates falling back close to zero. An apparent reluctance to tackle its prolonged structural problems, especially that of bad debt in the banking sector, has pushed the Japanese economy into a worsening deflationary situation, with almost no prospect for genuine improvement until the global economy recovers. Japan's problems, and the resulting weakness of the Yen, also had a negative impact on the rest of Asia, exacerbating the problems this region was already facing through its close links with the US technology industry. China, however, has benefited from joining the World Trade Organisation, the strong level of direct foreign investment associated with this accession, and the resultant buoyancy of domestic consumption.

US manufacturing inventories

source: Thomson Financial Datastream

companies

The weak economic background described above has had serious consequences for the corporate sector. Although the economic downturn itself may prove, with hindsight, to be relatively shallow, its impact on company profits has been much more severe. The inventory correction which became so apparent in the US technology sector proved to be a much more broadly-based problem, and brought with it a general squeeze on corporate margins which we had anticipated but which still surprised us by its severity. As can be seen from the chart on this page, inventories have now been run down significantly and it is hoped that the necessary rebuilding of these will boost economic growth in the months ahead.

Overcapacity still remains a problem in many sectors of manufacturing and the ability to raise or even hold prices could remain absent for some time. In such an environment cost control and productive efficiency are vital. Falling energy prices can provide a one-off boost to margins but productivity, which has stayed encouragingly high during the recent economic slowdown, will remain of paramount importance. Cost cutting and restructuring are already evident and must continue if the corporate sector is to lift itself out of the margin slump which prevails at present. Progress is most visible in the US, but it is also occurring in Europe, although at a much slower pace due to legal constraints. Even in Japan, where the macro-economic environment remains intensely challenging, some of the large international companies are making considerable progress in terms of restructuring. However all companies now face the additional burden of an ongoing increase in operational costs associated with changing working practices, and providing additional security, in response to the increased threat of terrorism.

equity markets

The chart on page 11 clearly illustrates the disappointing performance of equity markets over the last year. Markets declined sharply in reaction to the slowdown in the major economies, the resulting squeeze on company margins and increasing uncertainty about future corporate profitability. Investors became more risk-averse following the events of September 11th and markets bottomed soon afterwards. Some recovery has taken place in all markets since then and, at the end of our financial year, the US market was down 17.3% while the European and Japanese markets were down 22.6% and 25.3% respectively, with the

Japanese market hitting 15 year lows as a result. In sterling adjusted terms the relative weakness of both the euro and the yen contributed to even greater falls, 26% in Europe and 33% in Japan. The strength of the US Dollar, which appreciated a further 3% over our financial year reduced the fall in US markets to 14.5%. The UK market also suffered from the general adjustment to lower growth prospects and a preponderance of profit warnings, and fell 17.6% over the year (in capital terms although, on a total return basis, this fall was reduced to 15.5%). Technology-related stocks remained out of favour throughout most of the year as investors preferred to search for companies and sectors which offered not only reasonable quality of earnings but also the ability to grow these while simultaneously providing at least stability in dividends. As a result, defensive sectors and stocks were generally favoured, with healthcare and pharmaceuticals doing especially well.

asset distribution

GLOBAL **GEOGRAPHICAL**

source: internal

investment strategy

We began to manage some parts of our portfolio as global sectors over three years ago and remain convinced that this is the most appropriate strategy. Despite fears raised in the immediate aftermath of September 11th, companies are continuing to broaden their operations on a geographical basis with almost no indication of the retrenchment which was initially feared. The pie chart of our asset distribution illustrates that our strategy remains intact, with over half of our assets managed on a global basis, and we expect to extend this further.

equity markets - sterling adjusted

source: Thomson Financial Datastream

While economic and market conditions deteriorated last year, we took the opportunity to raise some cash and add to our fixed interest holdings, increasing this section of our portfolio to 5% of our total net assets. On a geographic basis, we reduced our exposure to the UK by more than £24m, to the US by £9m and to Europe by £7m. We cautiously invested £5m into Japanese companies, where we saw convincing signs of necessary restructuring, and more than £5m into other Asian markets. In sectoral terms we added more than £11m to resources and an equivalent amount to investment companies, with the bulk of this being focused on investment in unlisted companies. These purchases were financed by net sales of almost £25m in the pharmaceutical sector, following good performance there, and almost £13m in the software sector. We have also reduced our exposure to the consumer services sectors, especially in the UK.

classification of investments

equities (including convertibles*)	UK %	Europe %	North America %	Japan %	Rest of World %	Total 2002 %	Total 2001 %
resources & basic industries total	**10.7**	**1.5**	**2.6**	**0.3**	**0.9**	**16.0**	**13.6**
oil, chemicals & resources	8.2	0.8	1.7	0.2	0.6	11.5	10.1
construction & building materials	1.2	0.3	0.0	0.1	0.0	1.6	1.3
utilities	1.3	0.4	0.9	0.0	0.3	2.9	2.2
capital goods total	**1.0**	**0.1**	**3.2**	**2.4**	**0.6**	**7.3**	**7.8**
general industrial	0.4	0.0	1.0	0.4	0.4	2.2	2.1
electronics & engineering	0.6	0.1	2.2	2.0	0.2	5.1	5.7
technology total	**0.4**	**1.0**	**4.3**	**0.4**	**0.1**	**6.2**	**9.4**
hardware	0.1	0.7	2.1	0.2	0.1	3.2	5.1
software	0.3	0.3	2.2	0.2	0.0	3.0	4.3
consumer goods & products total	**8.1**	**3.1**	**7.1**	**0.4**	**0.6**	**19.3**	**17.4**
beverages, food & household products	3.1	0.7	0.8	0.0	0.5	5.1	4.0
health	0.6	0.5	2.7	0.0	0.0	3.8	2.8
pharmaceuticals	4.1	1.9	3.2	0.4	0.1	9.7	10.0
tobacco	0.3	0.0	0.4	0.0	0.0	0.7	0.6
services total	**12.2**	**2.1**	**6.2**	**1.0**	**1.0**	**22.5**	**27.4**
retail	2.4	0.6	3.4	0.3	0.0	6.7	5.9
brewers, hotels & leisure	1.8	0.0	0.0	0.1	0.0	1.9	2.1
media	1.8	0.6	0.6	0.2	0.3	3.5	4.2
transport	0.3	0.1	0.1	0.0	0.0	0.5	0.4
support services	2.4	0.4	0.3	0.3	0.4	3.8	4.9
telecommunications services	3.5	0.4	1.8	0.1	0.3	6.1	9.9
financials total	**14.9**	**3.0**	**3.7**	**0.4**	**1.6**	**23.6**	**22.9**
banks	8.8	1.9	1.7	0.0	1.0	13.4	12.1
insurance	2.2	1.1	1.8	0.0	0.0	5.1	6.7
investment companies	1.4	0.0	0.0	0.2	0.4	2.0	1.3
real estate	0.8	0.0	0.2	0.1	0.2	1.3	1.2
speciality & other finance	1.7	0.0	0.0	0.1	0.0	1.8	1.6
total equities	**47.3**	**10.8**	**27.1**	**4.9**	**4.8**	**94.9**	**98.5**
fixed interest	2.1	0.0	0.0	0.0	0.0	2.1	0.6
total investments	49.4	10.8	27.1	4.9	4.8	97.0	99.1
other net assets	1.8	1.3	-0.1	0.0	0.0	3.0	0.9
total assets less current liabilities							
2002 £1,674.0m	**51.2**	**12.1**	**27.0**	**5.0**	**4.8**	**100.0**	
2001 £1,975.6m	51.1	14.1	24.9	5.4	4.5		100.0

* *Convertibles represent 2.5% (1.9%)*

investment changes (£m)	valuation 31 january 2001	purchases	sales	valuation appreciation (depreciation)	valuation 31 january 2002
resources and basic industries	267	28	(21)	(8)	266
capital goods	152	15	(19)	(34)	114
technology	187	21	(25)	(82)	101
consumer goods & products	347	16	(50)	18	331
services	540	40	(58)	(140)	382
financials	465	51	(28)	(58)	430
total	**1,958**	**171**	**(201)**	**(304)**	**1,624**

portfolio review

In the tables opposite we show the portfolio by industry classification and geographic region as at 31 January 2002, together with a summary of changes made over the last year. Below we review themes, events and our activity within each industry sector, and we list our principal holdings in each area. The 174 companies listed in this review represent 81% by value of our investment portfolio. The top ten holdings comprise 24% of the total investments by value.

oil, chemicals and resources

Revenues for oil producers declined substantially during the year as the oil price fell and natural gas prices in the US more than halved. OPEC responded, cutting production and abandoning unworkable price targets. In the US, security issues have now replaced environmental problems as a particular concern. Imports currently satisfy half of US needs and energy policy is being re-appraised in the light of Middle East tensions, which should benefit US domestic production.

Our activity in the oil sector during the year focused on strengthening our oil and gas exposure to North America. In particular we sold our Repsol YPF holding which was exposed to Argentina and added to BP which has strengthened its US hydrocarbon reserves and operations. We also purchased Burlington Resources and Alberta Energy. We added to our position in PetroChina, the recently privatised company which produces two-thirds of China's oil and gas.

The mining industry moved more quickly than the energy sector to reduce levels of extraction, and thereby managed to restrict falls in mineral prices. Industry consolidation assisted this process, including completion of the BHP and Billiton merger during the year. Our mining stocks produced a positive return in a falling market and investment in this area was strengthened through additions to BHP and Anglo American. Our exposure to chemical companies remains small and highly selective. The largest holding is Air Liquide which we increased due to its defensive attractions within the economically-sensitive global gases market.

top ten holdings

company		value £m	% of fund
GlaxoSmithKline	UK	59.7	3.7
BP Amoco	UK	59.3	3.7
Shell Transport & Trading	UK	51.1	3.2
Royal Bank of Scotland	UK	49.2	3.0
Vodafone	UK	40.4	2.5
Johnson & Johnson	US	32.7	2.0
HBOS	UK	31.6	1.9
Wal-Mart	US	26.4	1.6
Abbot Laboratories	US	22.0	1.4
CGNU	UK	21.7	1.3

resources & basic industries

source: Air Liquide

oil, chemicals & resources		£m
BP Amoco	UK	59.3
Shell Transport & Trading	UK	51.1
Exxon Mobil	US	13.9
Rio Tinto	UK	13.6
Total Fina	France	7.5
BHP Billiton	UK/Australia	6.8
John Wood Group	UK	5.0
Air Liquide	France	4.1
Schlumberger	US	3.9
RPM	US	2.9
Shin-etsu Chemical	Japan	2.2
WMC	Australia	2.1

portfolio review

resources & basic industries

source: *Wolseley*

utilities		**£m**
Scottish & Southern Energy	UK	6.0
Consolidated Edison	US	5.5
Scottish Power	UK	5.1
United Utilities	UK	3.9
Kelda Group	UK	3.8
Constellation Energy	US	3.5
Suez Lyonnaise Des Eaux	France	3.0
Hawaiian Electric	US	2.5
WPS Resources	US	2.4
National Grid	UK	2.4
Australian Gas Light	Australia	2.2

construction & building materials		**£m**
Persimmon	UK	10.4
Lafarge	France	4.7
Aggregate Industries	UK	4.5
Wolseley	UK	3.5
Marshalls	UK	1.2
Matsushita	Japan	1.2
Crest Nicholson	UK	0.7

utilities

Utility companies were overshadowed by events in the US electricity trading sub-sector. Dubious accounting practices and complex business structures have not been associated with the usually conservative utilities, until Enron. This was the world's largest energy trader, formed in the wake of further deregulation, which collapsed abruptly. The full extent of the damage is not yet clear but it has set back utility deregulation globally and energy policies are being re-examined everywhere. Despite Enron, which we have *never owned, traditional utility companies continued to* show defensive qualities in an uncertain economic environment. Many individual share prices did well, in all equity regions, and absolute gains were recorded by a number of our US holdings. Constellation Energy was the exception, flirting briefly with the idea of becoming an independent power producer, before the collapse in that sector's valuation persuaded it otherwise, and the price has *since shown a measure of recovery. We increased* holdings in Australian Gas Light and in National Grid, which is strengthening its electricity network in the eastern US through acquisition. Our investment in the German company E.on was sold after it paid up for Powergen in the UK.

construction & building materials

The UK housebuilder, Persimmon, remains our core holding in the sector, with solid operations buoyed by strong house price inflation, record low lending rates and the integration of Beazer Group. However, specific concerns over the London property market led us to move *out of Berkeley Group, and we began a new holding in* Crest Nicholson, a more geographically diverse housebuilder. Further significant reductions in lending rates now appear unlikely but the housing market appears well supported by current affordability ratios.

Lafarge remains our core position in building materials, underpinned by expected synergy gains from the Blue Circle acquisition and longer-term exposure to emerging markets. We reduced our position in Aggregate Industries during the year as US fiscal plans played down spending on infrastructure. Through the year we added to our position in Wolseley Group, the building materials distributor, which offers exposure to economic recovery *and has a good track record in self-financed consolidation.*

general industrial

The downturn in manufacturing started eighteen months ago, much earlier than the general economic slowdown, and it forced many companies to revise their plans. The good news, however, is that global manufacturing output has largely readjusted to lower levels of demand, and the ratio of inventory to sales has declined significantly. Some share prices responded positively to these developments, but in the aftermath of the Enron collapse and in an area where acquisitions are prevalent, investors are currently wary of companies with anything other than straightforward accounts.

We added to Toyota and started a holding in Honda. These are the world's two most profitable car companies, and both should be strong beneficiaries of the weaker Yen. In addition we acquired new holdings in Hyundai and in Denway Motor, which assembles Honda cars in China. We also added to the US automotive supplier Delphi which has restructured and is developing new products.

We sold Rolls Royce, which faces a difficult market, and, in Hong Kong, part of the Hutchison Whampoa holding was *switched into its better-valued parent, Cheung Kong.*

electronics and engineering

This area is very diverse and highly stock specific. We reduced our exposure following partial sales of US holdings General Electric and Illinois Tool Works and disposed of Federal Signal, which was expensive for slower times.

Despite the return of recession in Japan, we added selectively to holdings in Sony, Keyence, the sensor company, and Hoya, the specialist glass company, all of which have good new product lines.

In Europe we added to our holding in Heidelberger Druckmaschinen, a world-leading commercial printing machine company, but sold AGA Foodservice after it sold *its pipes business, leaving it with less attractive prospects.* We also added to our holding in Kidde, the fire and safety equipment producer and initiated a holding in Swedish tooling and mining equipment maker Sandvik. Both have strong market positions and opportunities for growth.

capital goods

general industrial		**£m**
BAE Systems	UK	6.2
Pentair	US	5.3
Tyco International	US	5.1
Hutchison Whampoa	Hong Kong	4.9
Honda	Japan	3.7
Delphi Automotive Systems	US	2.5
Snap-on	US	1.9
Swire Pacific	Hong Kong	1.9
Toyota	Japan	1.4
Tower Automotive	US	1.3

electronics and engineering		**£m**
General Electric	US	20.9
Canon	Japan	8.6
Illinois Tool Works	US	5.7
Grainger	US	5.3
Keyence	Japan	5.0
Matsushita Electric Industries	Japan	3.7
Hoya	Japan	3.5
Renishaw	UK	3.5
Spirax-Sarco	UK	2.8
Sony	Japan	2.9
Emerson Electric	US	2.5
Mabuchi Motor	Japan	2.1

source: Honda

source: Sony

portfolio review

technology

source: Scientific Atlanta

hardware		**£m**
Intel	US	8.3
Cisco	US	7.3
Nokia	Finland	5.4
Texas Instruments	US	4.1
Motorola	US	3.7
Dell	US	3.0
Scientific Atlanta	US	2.9
Alcatel	France	2.5
Jabil Circuit	US	2.1
Murata	Japan	2.0
Thomson Multimedia	France	1.9
Sun Microsystems	US	1.7
Flextronics	US	1.7

software		**£m**
Microsoft	US	11.5
First Data	US	11.4
EDS	US	5.5
SAP	Germany	4.6
Oracle	US	3.2
Sage	UK	3.0
Equifax	UK	1.7

hardware

Global demand for computer hardware continued to deteriorate. However, in the second half of the year an improvement in inventory levels was accompanied by a slowing pace of decline. Despite tentative signs of more stable activity, capacity utilisation remains a problem, particularly for the semiconductor industry.

Greater stability is helpful, but doubts about recovery in business investment cloud the near-term demand outlook. This may be offset by new products in mobile handsets and PCs, although these are consumer-focused and the outlook for spending at this stage is fairly subdued, and so demand may be more muted than in previous cycles.

Purchases, made predominantly in the second half of the year, were targeted at companies with not only strong balance sheets but also an ability to gain market share in the new products. Positions in Nokia, Motorola and Flextronics were increased, with new positions established in ASML, Texas Instruments and Thomson Multimedia. We reduced our exposure to the telecom equipment sector with the disposal of Ericsson, Lucent and Marconi.

software

Software and service companies experienced difficult operating conditions throughout the year. With pressure on corporate IT budgets, spending was focused on critical business areas and on those demonstrating a clear, early return on investment. Poorer profits, valued more harshly, compounded to produce weak share prices.

Discretionary corporate spending on consultancy services was cut dramatically, and software spending patterns changed as clients moved to favour market leaders rather than niche providers. We maintained our focus on proven companies with established customers and we are encouraged by their prospects for gaining further market share as new products are sold to these customers. With this in mind we increased positions in Microsoft, Oracle and Sage.

Holdings exposed to the financial services, telecom and consulting sectors, where high valuations and deteriorating fundamentals posed the greatest risk, were pruned significantly. Disposals included Cap Gemini Ernst & Young, Logica and Misys.

beverages, foods & household products

These consumer-related areas benefited from reasonable demand, some pricing power and good cost control. Large integrations appear to be proceeding to plan and profits are providing positive surprises. Mars agreed the US$1.3bn purchase of Royal Canin, a premier petfood manufacturer. This deal follows the acquisition by Nestlé of the Ralston petfood company for US$11.2bn. Diageo's joint deal with Pernod Ricard to purchase the Seagram spirits business also received clearance, consolidating its position as a global spirits leader.

Proceeds from our sale of Tate and Lyle and reductions of Reckitt Benckiser and Pepsico were partially offset by investment in Kraft Foods, which has attractive margin expansion potential as it integrates the acquisition of Nabisco.

pharmaceuticals & healthcare

Despite their profits reliability, pharmaceutical stock prices experienced a volatile year. Negative factors weighing on share prices included imminent patent expiries for some major drugs, and swift generic substitution. The high price of patented drugs, particularly in the US, and access to them in less developed countries have become increasingly political issues but drug companies have responded with discount schemes and access programmes. A slowdown in new drug development has, in the short term, affected companies' growth.

However, valuations of large drug companies in the US, traditionally at a premium, are now in line with the general market. The industry continues to consolidate and to acquire the rights to new drugs, particularly from biotech companies. Although we retain a substantial position in the sector, we sold our AstraZeneca holding because we felt the valuation more than fully reflected its prospects. We also reduced our exposure to Novartis, following disappointing drug launches, and switched into Aventis.

Healthcare companies have generally fared better, with a good flow of new medical devices. Johnson & Johnson, our largest healthcare holding, hopes to introduce new drug-coated stents, which will give them a lead in this significant expansion of the market for treatment of blocked arteries. We added to new medical device companies Gyrus and Profile Therapeutics. Our sizeable exposure to this industry is based on our belief in the long-term growth in healthcare demand, together with the proven ability of companies in this area to innovate.

consumer goods & products

beverages, foods & household products		**£m**
Diageo	UK	16.5
Unilever	UK	14.9
Reckitt & Benckiser	UK	13.4
PepsiCo	US	9.4
Nestlé	Switzerland	8.0
Philip Morris	US	6.5
BAT	UK	4.7
Geest	UK	3.8
BRL Hardy	Australia	3.4
Foster's	Australia	2.9
Kraft	US	2.6
Scottish & Newcastle	UK	2.6

pharmaceuticals & healthcare		**£m**
GlaxoSmithKline	UK	59.7
Johnson & Johnson	US	32.7
Abbot Laboratories	US	22.0
Bristol-Myers Squibb	US	16.2
Merck	US	14.7
Aventis	France	11.9
UCB	Belgium	8.7
Novartis	Switzerland	7.3
Amersham	UK	6.6
Takeda	Japan	6.3
Celltech	UK	5.8
Fresenius	Germany	4.2

source: GlaxoSmithKline

portfolio review

services

source: Debenhams

retail		£m
Wal-Mart	US	26.4
Home Depot	US	17.7
Tesco	UK	12.4
Great Universal Stores	UK	8.2
Ahold	Netherlands	5.7
Walgreen	US	5.6
Sysco	US	5.0
Sainsbury	UK	4.7
Marks & Spencer	UK	4.2
Castorama Dubois	France	3.9
Kingfisher	UK	3.5
CVS	US	2.4
Debenhams	UK	2.4

brewers, hotels & leisure		£m
Compass	UK	10.9
Hilton	UK	6.0
Six Continents	UK	4.7
Wolverhampton & Dudley	UK	3.3
Airtours	UK	2.5

media		£m
EMAP	UK	11.7
AOL Time Warner	US	5.4
Reed International	UK	5.1
Gannett	US	4.6
Pearson	UK	4.3
VNU	Netherlands	3.4
Singapore Press	Singapore	3.2
Granada	UK	2.6

retail

The lowest UK interest rates since the early 1960s influenced consumers' behaviour. Clothing retailers benefited from reduced High Street competition, and food retailers saw better volumes. US consumers also enjoyed low interest rates which combined with tax cuts and discounts to sustain confidence. Trading conditions in Europe and Japan, however, remained testing. Further rate-cutting potential is now limited, while increasing unemployment would weigh on consumers. Retail volumes are unlikely to maintain momentum in that environment.

We trimmed our retail exposure in Japan, and cut back our sizeable holding in Wal-Mart, which is now on a very demanding valuation. We sold our holding in Boots, switching part into Debenhams as it offers good expansion potential, and we started a new position in Sundrug, the Japanese chemist.

brewers, hotels & leisure

Consolidation, take-over speculation and strong consumer demand helped the performance of brewing shares. Wolverhampton & Dudley successfully defended a hostile bid from Pubmaster and we subsequently added to our holding based on the potential for its revitalised strategy. Interbrew gained from not being forced to sell all the brewing assets acquired from Bass. Compass continued to benefit from the outsourcing of catering. However, slower economic growth meant difficult trading for hoteliers, and the situation worsened post September 11th. We reduced Hilton and P&O Princess, but added to Six Continents whose balance sheet and public house assets provide some protection should hotel trading deteriorate further.

media

Last year was one of the worst for advertising in the past decade. Weak economies, the unwinding of the technology and telecom boom and September 11th all affected revenues. The high fixed costs of many media companies made the impact on profits worse. A recovery in advertising is hoped for later in the year but evidence is awaited. We have adopted a defensive stance, retaining investments in companies that are relatively less reliant on advertising revenues. We sold Carlton and Seat and reduced Vivendi Universal and Pearson. Purchases of AOL Time Warner, Reed International and, latterly, Publicis offset these sales. With Asian economies starting to recover we added to our holding in Thai broadcaster BEC World.

transport

The combination of terrorist fears, economic slowdown and UK rail chaos produced a difficult operating environment across the transport industry. Forth Ports continued to trade well, and First Group coped with a difficult UK rail situation, generating strong cash flow. It also has interests in the UK and US bus markets, both having solid prospects. We added to EasyJet which is in a potentially high growth area as it looks to secure access to attractive new routes. We hold no European or US incumbent airlines, with our exposure to growth in air travel being via BAA, the airport operator, which has strong retailing skills and which faces a potentially more benign regulatory environment.

support services

Outsourcing encompasses an increasing breadth of applications and as such there were few broad themes driving company performance. Deteriorating economies undermined the staffing and logistics companies, although, looking forward, they should be early beneficiaries of an improvement in economic activity. New investments were made in Michael Page, the professional staffing company, and Techem, a German energy manager. The US and global *security industries are changing significantly and through* Securitas we have exposure to that theme. GKN demerged its operations, giving Brambles Industries full control of the CHEP pallets business in the US. We reduced our exposure to Electrocomponents, Landauer, Securicor and Galileo..

telecommunications services

The sector's difficulties included concerns about subscriber growth, pricing and the take-up of data services, along with too much debt in the companies. We committed more capital to BT through its rights issue, but balance sheet concerns led us to reduce our stake in France Telecom. We also aggressively reduced our exposure to European alternative carriers. In the US, pricing pressures undermined all operators and drove some new entrants into bankruptcy. Long-distance pricing was particularly weak and so we sold our holding in Qwest Communications. Mobile operators experienced a disappointing slowdown in subscriber additions late in the year and we accordingly reduced our direct exposure to the wireless area.

transport		**£m**
Deutsche Post	Germany	2.2
United Parcel Service	US	2.1
Forth Ports	UK	1.6
P&O	UK	1.4
First Group	UK	1.3
EasyJet	UK	0.4
BAA	UK	0.4

support services		**£m**
Electrocomponents	UK	16.9
Hays	UK	8.7
Brambles Industries	Australia	7.3
Securitas	Sweden	5.8
Serco	UK	4.6
Waste Management	US	3.7
SECOM	Japan	3.6
Macfarlane	UK	2.8
Premier Farnell	UK	2.6
Chubb Security	UK	2.3
Michael Page	UK	2.2

telecommunications services		**£m**
Vodafone	UK	40.4
British Telecom	UK	12.2
Verizon Communications	US	12.1
SBC Communications	US	8.6
BellSouth	US	6.7
Telefonica	Spain	5.7
MM02	UK	4.3
Telephonos De Mexico	Mexico	3.1

source: Securitas

financials

source: Royal Bank of Scotland source: UBS

banks		£m
Royal Bank of Scotland	UK	49.2
HBOS	UK	31.6
Barclays	UK	21.3
Lloyds TSB	UK	20.0
HSBC	UK/Hong Kong	12.0
Standard Chartered	UK	11.0
TCF	US	6.3
Abbey National	UK	5.8
Wells Fargo	US	4.9
Commonwealth Bank of Australia	Australia	4.9
ABN Amro	Netherlands	4.5
Banca Nazionale Lavoro	Italy	4.3
Bank of America	US	4.3
Bank One	US	4.1
BNP Paribas	France	4.0
Northern Trust	US	3.7

insurance		£m
CGNU	UK	21.7
Marsh & McLennan	US	15.3
Prudential	UK	9.9
American International Group	US	9.6
Legal & General	UK	5.0
CNP Assurances	France	4.7
Allianz	Germany	3.2
Protective Life	US	2.8
Banca Fideuram	Italy	2.5
Aegon	Netherlands	2.3

banks

Investors' worries about credit deterioration were fuelled by the economic downturn but lower interest rates, declining bond yields and modest valuations acted as a prop to those banks with defensive characteristics. UK banks performed very well, helped by relatively better domestic economic conditions and their low investment banking exposure. We used the associated share price strength to reduce slightly our large holding in Royal Bank of Scotland.

Corporate credit quality concerns were most pronounced in US investment banks, to which we are not exposed, with the largest write-off arising from the collapse of Enron. In the US we added to Wells Fargo and Fleetboston Financial, financed by sales of Comerica.

In Europe, we initiated a new, and at this stage modest, holding in UBS, which is the leading bank in Switzerland and is aiming to be the pre-eminent investment services firm globally.

The Japanese banking system, where we have little exposure, may be technically insolvent. Prolonged deflation and an increase in bankruptcies have raised bad debts but banks will ultimately be recapitalised, either by shareholders or by the government. Meantime we sold our small remaining holdings in UFJ and Mitsubishi Tokyo Financial.

insurance

The non-life insurance sector was hit by heavy claims, reserving for asbestos and by weaker equity markets. The collapse of Independent Insurance highlighted the dangers of complex reinsurance contracts, and the costs associated with September 11th removed an estimated $30-50bn of capacity. Since then, some US$15bn of new capital has been raised, which has not halted a dramatic turnaround in the rating environment but may have an impact on its durability. We sold our Royal & Sun Alliance holding, and reduced Zurich Financial Services but initiated a new position in Converium, the reinsurer spun out of ZFS. We added to American Insurance Group in the US and to Sampo of Finland.

A weaker solvency position, increased competition and several ongoing regulatory reviews overshadowed the UK life assurance sector, leading us to reduce our holding in Legal and General. The favourable backdrop of an ageing population and an increased need to save for retirement, because of the reduced role of the state, continued to support the long-term investment case for European and US sectors where we maintained our positions.

how the company works

structure of the company

constitution

The Alliance Trust is an investment company incorporated under the Companies Acts. Its constitution is set out in its Memorandum and Articles of Association. It is an Inland Revenue approved investment trust, which enables it to realise its investments free from taxation on capital gains. Acceptance of investment trust status by the Inland Revenue is retrospective. Acceptance has been confirmed in respect of the financial year to 31 January 2001. The Company has subsequently conducted its affairs to enable it to continue to seek approval.

management

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

The Alliance Trust is different: it employs its own staff to manage its portfolio and carry out all secretarial and administrative functions. Consequently it is not exposed to the potential conflicts of interest involved in employing an external investment manager.

Since the 1920s, the Company has conducted its operations alongside those of the Second Alliance Trust, another, smaller, self-managed investment trust. Staffing costs and the expenses of operating from Meadow House, Dundee, where both companies have their office, are shared. The interests of both companies are aligned since they have the same investment objectives, substantially the same investments in their respective portfolios and the same individuals hold office as directors. Should any potential conflict of interest arise, independent advice is taken by each company.

This arrangement works well for stockholders, who are also the Company's customers, as the management function is under their control, effectively ensuring the mutuality of interest essential for any long term relationship. The benefits are evidenced in the exceptionally low expense ratio, the good long term performance and the successful development of value-enhancing activities through companies jointly owned by the two investment trusts.

alliance trust savings

One of these companies is Alliance Trust Savings (ATS) which is an authorised deposit-taker regulated by the Financial Services Authority. It is owned 75% by the Company and 25% by the Second Alliance Trust. ATS provides stockholders of both companies with a means of purchasing and holding their stock in the most convenient, flexible, cost and tax efficient way appropriate to their own circumstances. This is achieved by providing a number of "wrapper" products (ISAs, PEPs, Investment Plans and Pensions) which enable stockholders to choose their own portfolios from a wide range of securities having first made an initial investment in the Company and/or the Second Alliance Trust. These wrappers are all administered in-house using ATS' own systems and staff to ensure a consistent and coherent design, a single point of contact and integrated reporting where investors use more than one product.

stockholders

At 31 January 2002 the Company had 28,090 stockholders on its register of members. These include many individuals, trusts, charities, pension funds and insurance companies. The register also includes an increasing number of nominee holdings which are used by professional advisers and custodians to simplify administration of clients' assets. One of these is the nominee holding operated by ATS which, at the same date, held 12.6% of the Alliance Trust ordinary stock for 25,535 investors.

board of directors

non-executive

Bruce W M Johnston CA (63) 1

Joined the board 1991 Appointed Chairman 1996

Bruce Johnston was a partner in the chartered accountancy firm, Arthur Young (now Ernst & Young), between 1970 and 1986, where he concentrated on audit and advisory work for companies and private clients. He then moved to the commercial sector and was Executive Chairman of City Centre Restaurants plc, where he combined general management with responsibility for finance and investor relations.

Other directorships include The Second Alliance Trust PLC and Mid Wynd International Investment Trust PLC.

William Berry MA LLB WS (62) 5

Joined the board 1994
Senior Independent Director
Chairman of the remuneration committee
Member of the audit committee

William Berry is a solicitor and chairman of Murray Beith Murray, an Edinburgh Law firm which has an important investment presence, managing and administering funds for many private clients. He was formerly chairman of Scottish Life Assurance Company.

Other directorships include The Second Alliance Trust PLC, Fleming Continental European Investment Trust PLC and The Scottish American Investment Company PLC.

W Nelson Robertson CBE MA FCII (68) 6

Joined the board 1996
Member of the audit and the remuneration committees

Nelson Robertson's career was spent at General Accident Fire & Assurance Company where he became a director in 1984 and Chief Executive in 1990. He was a director of Morrisons Construction Group PLC until January 2001

Other directorships include The Second Alliance Trust PLC, Edinburgh Leveraged Income Trust PLC and ELIT Zeroes 2008 PLC.

William H Jack (57) 7

Joined the board 2000
Chairman of the audit committee
Member of the remuneration committee

Bill Jack became managing director of GA Life in 1991, having joined the General Accident Fire & Assurance Company in 1973. He became managing director of CGU Life in 1998 with responsibility for the UK life and unit trust business.

Other directorships include The Second Alliance Trust PLC and Skipton Building Society.

Lesley Knox MA (48) 8

Joined the board 2001
Member of the audit and the remuneration committees

Lesley Knox qualified as a solicitor and worked in the UK and USA before joining Kleinwort Benson Limited where she became Head of Institutional Asset Management in 1991 and a group director in 1996. In 1997 she joined the British Linen Bank where she was Governor before becoming a founder investor and director of British Linen Advisers.

Other directorships include The Second Alliance Trust PLC, MFI Furniture Group PLC, Dawson International PLC, Glenmorangie PLC and New Fulcrum Investment Trust PLC.

executive

Gavin R Suggett MA MSc FCA (57) 2

Joined the Company 1973
Appointed to the board 1987 Appointed Chief Executive 1995

Gavin Suggett trained as a chartered accountant before reading economics at Cambridge and studying business administration at the London Business School. He worked in industry and commerce before joining the Alliance Trusts, where he was secretary before becoming a director. He started the IT capability in the organisation and the deposit taking and savings business and has, over the years, experience in the investment, treasury, oil and mineral rights, financial, administrative and investor relations aspects of the business.

Alan M W Young MA LLB (55) 3

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 Alliance Trusts he managed the UK and European portfolios before becoming the director responsible for investment policy.

Sheila M Ruckley MA LLB DLP (52) 4

Joined the Company 1988 Appointed to the board 2000

Sheila Ruckley studied history and philosophy in the UK and USA before qualifying as a solicitor. After joining the Alliance Trusts she became secretary and compliance officer of the savings business before becoming responsible for the introduction and development of the Alliance Select Pension. She now has responsibility for investor relations within the organisation.

The executive directors are also directors of the Company's subsidiary and the companies in the Alliance Trust group.

how the company works

directors

directors and officers

The Board consists of five independent non-executive directors and three executive directors. The non-executives are Bruce Johnston who is the Chairman of the Board, William Berry who is the senior independent director, Bill Jack, Lesley Knox and Nelson Robertson. The executive directors are Gavin Suggett, chief executive, Sheila Ruckley, investor relations director, and Alan Young, investment director.

Lesley Knox has joined the Board since the last Annual General Meeting and her appointment is subject to the approval of stockholders at this year's Annual General Meeting.

The Chairman plays an important role, along with the other non-executives, in bringing an independent and objective view to the activities of the Group. These directors are chosen for the relevance of their particular expertise and experience to the business and direction of the Group.

Details of directors' retirals and proposed appointments at the annual general meeting are contained in the notice of meeting which accompanies this report.

how directors are appointed

Nominations of directors are considered by the Board which also makes the initial appointment. Such appointments are submitted for approval by the stockholders at the next annual general meeting. By the Articles of Association non-executive directors retire by rotation but may stand for re-election. In fact, the Board has resolved that all the directors, executive and non-executive, should submit themselves in turn for re-election by the stockholders at least every three years.

meetings of directors

The directors meet regularly for Board meetings of the Company (monthly), and of ATS (quarterly). With the exception of the Chairman, the non-executive directors also serve on the audit and remuneration committees. For all these meetings the directors are provided, in advance, with financial reports and supporting papers which enable them to monitor operational and corporate issues as well as decide on policy.

board matters and delegation

Strategy is considered and determined by the Board. In addition, certain other matters are reserved for decision by the Board on the basis of their importance to the Group. What these reserved matters are is reviewed by the Board from time to time. Specific authority is given to Board committees to carry out identified tasks, and day-to-day management is delegated to the executive directors.

committees of the board

Details of the audit committee and its responsibilities are given on page 28 in the section on accountability and audit.

No separate nomination committee has been constituted. Given the relatively small size of the Board, the non-executive majority of its members and the regularity and frequency of its proceedings, the Board as a whole is able to fulfil the formal procedures required before a director is appointed.

The chairman of the remuneration committee is William Berry. The other members are Bill Jack, Lesley Knox and Nelson Robertson.

executive committee

The chief executive has, with the Board's approval, appointed an executive committee to which major management issues arising within the Group are referred for consideration.

The executive committee comprises the three executive directors (Gavin Suggett, Sheila Ruckley and Alan Young) and Neil Anderson, Colin Beveridge and Kevin Dann. Neil Anderson is the investment operations manager responsible for managing systems, procedures and the team of analysts in the investment department. Colin Beveridge is chief investment officer and Kevin Dann is the managing director of ATS.

how the company works

directors' remuneration

how directors' remuneration is determined

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

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

employment contracts

All the executive directors have contracts of employment which are terminable by the Company on one year's notice. These contracts are available for inspection at the Annual General Meeting and at Meadow House during normal business hours. In the event of termination of a director's service contract, the director would have a duty in law to mitigate any loss. The remuneration committee has a responsibility to bear this in mind in recommending any payments on termination. Executive directors also have contracts of employment with The Second Alliance Trust PLC.

executive remuneration policy

It is and has been the policy of the Group to set the remuneration of executive directors at a level to attract and retain individuals of appropriate ability, experience and integrity, without paying more than is necessary. Executive directors are paid salaries, which are reviewed each year in the light of market conditions and individual performance. Apart from the Alliance Trust Share Incentive Plan detailed below, no performance related bonuses, share option or other incentive schemes are presently in force. The policy on executive director remuneration applies to all employees.

The Board is, however, conscious of market forces and changes in the expectations of a modern work force and the trend towards flexible remuneration packages. The Board introduced an element of performance related remuneration for all staff, including executive directors, with the tax-advantaged Share Incentive Plan in July 2001. The 'free share' element of the Share Incentive Plan is based on Group performance with a maximum allocation of stock to the value of of £3000 per employee each year if all targets are met. Performance targets are set annually. No shares can be allocated to an employee who has left, and leaving within 5 years of an allocation may involve the loss of tax benefits.

The Combined Code on Corporate Governance recommends that performance related elements "should form a significant proportion of the total remuneration package of executive directors". The Board reports that it does not comply with this recommendation, save that the salary paid to each executive itself reflects the individual's performance which is taken into account at the salary review.

	group		company	
fees paid to non-executive directors	2002 £	2001 £	2002 £	2001 £
William Berry	14,938	14,000	11,250	10,500
William H Jack	14,938	2,333	11,250	1,750
Bruce W M Johnston (Chairman)	29,500	28,000	22,125	21,000
Lesley M S Knox	9,574	-	7,219	-
W Nelson Robertson	14,938	14,000	11,250	10,500
Andrew F Thomson*	3,383	14,000	2,538	10,500
Total	**87,271**	**72,333**	**65,632**	**54,250**

* Retired 27 April 2001.

remuneration paid to executive directors (Group and Company)	salary 2002 £	2001 £	taxable benefits* 2002 £	2001 £
Sheila M Ruckley	81,250	12,500†	756	92†
Gavin R Suggett (highest paid director)	144,375	134,375	756	787
Alan M W Young	118,625	111,250	1,427	4,699
Total	**344,250**	**258,125**	**2,939**	**5,578**

* Each executive director has private medical insurance for him or herself, spouse and children under 25. Until 30 March 2001 Alan Young had the use of a company car.

† From appointment on 29 November 2000.

pensions for executive directors

All the executive directors are members of an Inland Revenue approved, non-contributory, defined benefit pension scheme (see note 18, page 42) which is open to all employees. The scheme provides for a maximum pension of two thirds final pensionable salary at a normal retirement age of 60 with a one sixtieth accrual rate. Early retirement after the age of 50 may be taken only with the consent of the Company. A surviving spouse's pension of half the director's pension is payable on death after retirement.

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

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

There are no defined contribution schemes except the additional voluntary contributions scheme which is part of the occupational scheme. Sheila Ruckley makes such contributions, but the other directors do not.

The table below gives the accrued pension entitlements of the executive directors. These benefits are provided for in the funding rate.

insured benefits

If an executive director dies in service, insurance cover maintained by the Group provides a lump sum of up to four times salary, a surviving spouse's pension of one half of the director's prospective pension and, if applicable, a pension equal to one third of the surviving spouse's pension for each child under 21 and in full time education (up to a maximum of three children). Also provided through the pension scheme is disability insurance. In the event of the incapacity of a director whilst in service, up to 75% of salary (less state benefits) would be payable. These insured benefits are common to all members of the pension scheme and have no value on leaving service. The cost to the Company of providing these insured benefits for the executive directors as a percentage of remuneration, is Sheila Ruckley 4.1, Gavin Suggett 7.8 and Alan Young 5.4. This cost is additional to the pension benefits in the table below.

Alliance Share Incentive Plan

Based on the performance of the Group since the commencement of the all employee Share Incentive Plan in July 2001, provision has been made in the accounts for the purchase of stock to the value of up to £570 for each of the directors, the stock to be held in trust under the Plan.

executive directors pensions	age at 31 january 2002	accumulated total accrued pension at 31 january 2001	increase in accrued pension during year resulting from inflation	accrued pension over and above inflation during the year	accumulated total accrued pension at 31 january 2002
Sheila M Ruckley	52	£14,486	£478	£3,204	£18,168
Gavin R Suggett	57	£80,192	£2,646	£6,426	£89,264
Alan M W Young	55	£39,549	£1,305	£4,282	£45,136

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

In August 1988, Alan Young was credited with 5 years' pensionable service, funded as to 2 years 1 month by a transfer in from a scheme connected with previous employment and 2 years 11 months by a discretionary increase. His service is also being enhanced by six months in respect of each actual year of service over a period of 10 years ending on his 60th birthday.

how the company works

directors' interests

Lesley Knox was appointed a director on 15 June 2001. The other directors served throughout the year. During the year, no director had any material interest in any contract, being a contract of significance, with the Company or any subsidiary company or was connected to any adviser or supplier who had such an interest.

Each director is required, in terms of the Company's Articles of Association, to hold at least 200 of the Company's ordinary stock units. No director has any interest in the Company's preference stocks or debenture stock. No director, nor any member of any director's immediate family, has been granted options to subscribe for stock or debentures in the Company, or in any body corporate in the same group as the Company.

The table below gives the total interests of each individual director in the ordinary stock at 31 January 2002.

Since then, the following increases in the named directors' holdings, either personally or through connected persons, have taken place.

Acquisitions pursuant to standing instructions through plans provided by ATS.

director	beneficial/ non-beneficial	no. of stock units
Gavin Suggett	beneficial	44
Gavin Suggett	non-beneficial	68

Stock purchased by ATS as trustee of the Alliance Share Incentive Plan on behalf of directors pursuant to standing instructions for salary deductions to acquire partnership shares:

director	no. of stock units
Gavin Suggett	9
Sheila Ruckley	9
Alan Young	9

There have been no changes other than these in the interests of the directors between 31 January and 15 March 2002.

directors' interests (stock units of 25p)	31 january 2002		1 february 2001 *or date of appointment	
	beneficial	non-beneficial	beneficial	non-beneficial
William Berry	1,700	8,919	1,218	8,887
William H Jack	1,000	-	1,000	–
Bruce W M Johnston	2,083	15,186	2,043	15,186
Lesley M S Knox	276	-	176*	-
W Nelson Robertson	1,400	1000	1,400	1,000
Sheila M Ruckley	1,432	-	1,379	-
Gavin R Suggett	1,551	10,759	1,129	10,098
Alan M W Young	2,484	-	2,221	-

compliance with the code of best practice

The section "How the Company Works" constitutes the statement on the application by the Company of the principles of the Combined Code on Corporate Governance, as required by the UK Listing Authority.

The Board confirms that, except where otherwise stated, throughout the period of this report the Company has complied with the provisions of the Combined Code. The two areas of variation are that the Board has not appointed a nominations committee (explained at page 23), and separate, performance-related elements do not form a substantial part of the total remuneration package of executive directors (explained at page 24).

relations with stockholders

communications with stockholders

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

The annual general meeting is held in Dundee each year to which a warm welcome is extended to all owners of Alliance Trust stock, however held. The management meets stockholders, institutional investors and financial advisers in Dundee and elsewhere, and participates in events for private investors organised by ATS.

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

notifications by substantial stockholders

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

	Ordinary stock units
DC Thomson & Co Ltd	3,241,503 (6.43%)
The Standard Life Assurance Company	2,564,741 (5.09%)

ATS currently holds over 12% of the Company's ordinary stock on behalf of its customers and as trustee of the Alliance Select Pension. This is not a notifiable interest in terms of the Companies Act 1985.

how the company works

accountability and audit

financial reporting

The Chairman's Statement, and the Business Performance and Business Outlook reviews on pages 2 to 11 give the directors' assessment of the Group's position and prospects. The auditor's statement is found on page 43.

directors' responsibility for the accounts

The directors are required by law to prepare financial statements which give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the revenue and cash flows for the year. In addition, the directors are responsible for ensuring that adequate accounting records are maintained, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Company and the Group have, in the opinion of the directors, adequate resources to continue operation as a going concern for the foreseeable future, and the financial statements of the Company and the Group for the year ended 31 January 2002 have been prepared on that basis. The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in their preparation and that applicable accounting standards have been followed.

audit committee and auditors

Non-executive directors William Berry, Lesley Knox and Nelson Robertson together with Bill Jack as Chairman form the audit committee. The committee operates under specific terms of reference and meets at least three times a year, including prior to the publication of the Group's interim and final results.

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

The Compliance Surveillance and Internal Audit Manager, the external consultants and the statutory auditor have the opportunity to talk to the committee alone, outwith the presence of all members of the executive. They also have the opportunity to approach the chairman or other members of the audit committee directly at any time, or call for a meeting of the committee to be convened.

internal control and risk management

It is the responsibility of the Board to ensure that there is in place a sound system of internal control and to review the effectiveness of this system.

The Board carries out an annual review of significant business risks and considers the scope and effectiveness of the Company's system of internal control. The Company's risk control procedures seek to identify both financial and non-financial risks which the businesses face in their markets and operations. The review takes into account the nature and extent of risks inherent in the Company's activities, including any changes identified during the course of the year, the extent and frequency of reporting to, and matters discussed by, the Board and its committees during the year, including those issues identified in reports received from the audit committee. In addition to this annual review, the Board keeps risk issues under scrutiny during the year and seeks to satisfy itself that awareness of risk is embedded into the Group's operations and that risks identified are being actively monitored. The Board confirms that procedures, which accord with published guidance for directors on compliance with the Combined Code, have been in place for the year under review and continue to be in place. These procedures ensure that, at both Board and management levels, consideration is regularly given to the nature and extent of risks faced, or likely to be faced. They also provide mechanisms to assess whether further action is required to manage the risks identified.

The Company seeks to manage the balance between risk and return in a prudent manner. The balance achieved need not compromise rigorous compliance with statutory and regulatory provisions, or adherence to principles of good business management. Although no system of internal control can give an absolute assurance against misstatement or loss, the system should prevent or detect areas of shortcoming and minimise the risk of loss through incompetence, neglect of duty, mistake or fraud.

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

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

All aspects of the Group's businesses are managed and administered entirely from our Registered office and this is a significant factor in ensuring both an open culture and effective surveillance and control procedures.

The Group has within ATS a business which is regulated by the Financial Services Authority (FSA). The FSA requires that responsibility for certain key 'control' functions within the regulated business are identified, allocated and documented. Meeting the FSA requirements reinforces the Group's existing risk control process.

investment risk and financial instruments

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

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

The Board reviews the disposition of the portfolio and the economic and valuation risks each month with the executive, and any change to the above approach to risk and return would require Board approval. Details of the activity during the year, the investment strategy and the spread of the portfolio are given in the business and portfolio reviews commencing on page 6. Further required information is given in the notes to the accounts on page 36.

how the company works

other policies

voting

The Company owns investments in many listed companies and its policy is to vote its shares wherever practical, usually by arranging for a proxy to be lodged. Votes are cast with a view to the development or defence of shareholders' interests consistent with the long-term aims for this Company. Any proposal to vote against the recommendations of the management of the company in which stock is held requires the approval of an executive director, and any decision so to vote is reported to the Board.

data protection

The Company and ATS are both data controllers as defined under the Data Protection Act 1998. Information received from or about stockholders or investors (for example from a stockbroker), whether by telephone or in writing, by fax or by any other electronic or digital means of communication may be processed. For security and compliance monitoring purposes telephone calls may be recorded.

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

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

policy and practice on payment of creditors

All dealings in investments are settled in accordance with the terms of the relevant investment exchange. Investment apart, the Company either accepts suppliers' payment terms or settles terms of payment with each supplier individually when agreeing a transaction, and so the supplier is always aware of the terms of payment and payment is made in accordance with these terms.

At 31 January 2002 the Company had no trade creditors. ATS, its principal operating subsidiary, had trade creditors of 7 (6) days' purchases.

environment

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

Using reporting guidelines issued by the Department of the Environment, Transport and the Regions, UK greenhouse gas emissions during the year by reason of the Group's activities (office heat and power requirements and employee travel) are calculated to be approximately 118 (119) tonnes of carbon dioxide.

donations

The Company is a member of ProShare which promotes individual share ownership and which has charitable status. £6,494 (£6,494) was subscribed during the year as a membership fee. No political or charitable donations have been made.

Ian Goddard.

By order of the Board
Ian Goddard, Secretary
Dundee, 18 March 2002

accounting policies

1 basis of accounting

The financial statements which follow on pages 32 to 42 have been prepared under the historical cost convention, modified to include the revaluation of fixed assets. They also assume the going concern basis of accounting and that the Company will continue to have approval as an investment trust. They have been drawn up in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies."

The consolidated statement of total return and balance sheet include the financial statements of the Company and its subsidiary companies as at 31 January 2002, made up to the same date. The Company and its subsidiaries comprise the Alliance Trust Group.

2 valuation of fixed assets

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

Office premises are shown at the valuation as at 31 January 2001 carried out by chartered surveyors on a current open market value basis. No depreciation has been charged on this asset as, in the opinion of the Board, any provision for depreciation would be immaterial in relation to the revenue for the year and the assets of the Company.

3 income

Income from quoted equity shares is brought into account on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Franked investment income and foreign income dividends are shown as the amount receivable only.

Other income includes any taxes deducted at source. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

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

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

4 expenses and interest

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

5 taxation

Following FRS 19, provision is made for deferred taxation on all timing differences.

6 reserves

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

7 pension costs

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

consolidated statement of total return

for year ended 31 january 2002	notes	2002 revenue £000	2002 capital £000	2002 total £000	2001 revenue £000	2001 capital £000	2001 total £000
investment income	1						
UK dividends		26,845	–	26,845	22,727	–	22,727
UK interest		1,727	–	1,727	1,804	–	1,804
overseas dividends		12,601	–	12,601	11,925	–	11,925
overseas scrip dividends		–	–	–	94	–	94
overseas interest		–	–	–	97	–	97
mineral rights income		781	–	781	483	–	483
		41,954	–	41,954	37,130	–	37,130
other income							
deposit interest		5,861	–	5,861	6,045	–	6,045
savings and pension product charges		1,970	–	1,970	2,205	–	2,205
miscellaneous		132	–	132	374	–	374
		7,963	–	7,963	8,624	–	8,624
total income		49,917	–	49,917	45,754	–	45,754
expenses	2	(6,142)	–	(6,142)	(5,420)	–	(5,420)
realised gains on investments	7	–	22,559	22,559	–	147,249	147,249
(decrease) in unrealised appreciation	7	–	(325,726)	(325,726)	–	(61,652)	(61,652)
surplus on revaluation of office premises		–	–	–	–	28	28
foreign exchange (losses)gains		–	(1,399)	(1,399)	–	1,096	1,096
net return before interest payable and taxation		43,775	(304,566)	(260,791)	40,334	86,721	127,055
interest payable	3	(1,428)	–	(1,428)	(1,410)	–	(1,410)
return before taxation		42,347	(304,566)	(262,219)	38,924	86,721	125,645
taxation	4	(4,419)	–	(4,419)	(4,216)	–	(4,216)
return after taxation		37,928	(304,566)	(266,638)	34,708	86,721	121,429
minority interest – equity		(352)	4	(348)	(497)	(98)	(595)
		37,576	(304,562)	(266,986)	34,211	86,623	120,834
dividends on preference stock – non-equity	5	(97)	–	(97)	(97)	–	(97)
return attributable to equity stockholders		37,479	(304,562)	(267,083)	34,114	86,623	120,737
dividends on ordinary stock – equity	5	(34,524)	–	(34,524)	(33,516)	–	(33,516)
transfer to reserves		2,955	(304,562)	(301,607)	598	86,623	87,221

		earnings	capital	total	earnings	capital	total
return per ordinary stock unit	6	74.36p	(604.29p)	(529.93p)	67.69p	171.87p	239.56p

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

company statement of total return

	notes	2002 revenue £000	2002 capital £000	2002 total £000	2001 revenue £000	2001 capital £000	2001 total £000
investment income	1						
UK dividends		26,845	–	26,845	22,727	–	22,727
dividends from subsidiary		1,275	–	1,275	1,275	–	1,275
		28,120	–	28,120	24,002	–	24,002
UK interest		690	–	690	808	–	808
overseas dividends		12,601	–	12,601	11,925	–	11,925
overseas scrip dividends		–	–	–	94	–	94
overseas interest		–	–	–	97	–	97
mineral rights income		781	–	781	483	–	483
		42,192	–	42,192	37,409	–	37,409
other income							
deposit interest		2,754	–	2,754	2,906	–	2,906
miscellaneous		5	–	5	5	–	5
		2,759	–	2,759	2,911	–	2,911
total income		44,951	–	44,951	40,320	–	40,320
expenses	2	(3,158)	–	(3,158)	(2,856)	–	(2,856)
realised gains on investments	7	–	22,559	22,559	–	147,249	147,249
(decrease) in unrealised appreciation	7	–	(325,942)	(325,942)	–	(61,534)	(61,534)
surplus on revaluation of office premises		–	–	–	–	28	28
foreign exchange (losses)gains		–	(1,399)	(1,399)	–	1,096	1,096
net return before interest payable and taxation		41,793	(304,782)	(262,989)	37,464	86,839	124,303
interest payable	3	(115)	–	(115)	(76)	–	(76)
return before taxation		41,678	(304,782)	(263,104)	37,388	86,839	124,227
taxation	4	(3,882)	–	(3,882)	(3,393)	–	(3,393)
return after taxation		37,796	(304,782)	(266,986)	33,995	86,839	120,834
dividends on preference stock – non-equity	5	(97)	–	(97)	(97)	–	(97)
return attributable to equity stockholders		37,699	(304,782)	(267,083)	33,898	86,839	120,737
dividends on ordinary stock – equity	5	(34,524)	–	(34,524)	(33,516)	–	(33,516)
transfer to reserves		3,175	(304,782)	(301,607)	382	86,839	87,221

		earnings	capital	total	earnings	capital	total
return per ordinary stock unit	6	74.80p	(604.73p)	(529.93p)	67.26p	172.30p	239.56p

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

balance sheets

of the group and of the company as at 31 january 2002	notes	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
fixed assets	7				
office premises		650	650	650	650
investments		1,614,344	1,949,332	1,623,734	1,957,958
		1,614,994	1,949,982	1,624,384	1,958,608
current assets					
debtors	9	11,781	17,325	5,506	11,510
bank deposits		137,524	91,380	80,163	42,579
cash at bank and in hand		3,969	1,381	2,394	1,339
		153,274	110,086	88,063	55,428
creditors: amounts falling due within one year	10	(84,632)	(74,748)	(38,480)	(38,462)
net current assets		68,642	35,338	49,583	16,966
total assets less current liabilities		1,683,636	1,985,320	1,673,967	1,975,574
creditors: amount falling due after more than one year					
4% debenture stock 1956 or after - repayable at the Company's option		1,648	1,648	1,648	1,648
minority interest - equity		9,669	9,746	–	–
		11,317	11,394	1,648	1,648
capital and reserves					
called-up share capital	5	14,800	14,800	14,800	14,800
other reserves					
capital reserve - realised	11	1,017,555	996,395	1,016,256	995,096
capital reserve - unrealised	11	597,550	923,272	613,519	939,461
revenue reserve	11	42,414	39,459	27,744	24,569
total stockholders' funds		1,672,319	1,973,926	1,672,319	1,973,926
		1,683,636	1,985,320	1,673,967	1,975,574
total stockholders' funds are attributable to:					
equity stockholders	12	1,670,119	1,971,726	1,670,119	1,971,726
non equity stockholders	12	2,200	2,200	2,200	2,200
		1,672,319	1,973,926	1,672,319	1,973,926
net asset value per ordinary stock unit	6	£33.14	£39.12	£33.14	£39.12

The financial statements on pages 31 to 42 were approved by the Board on 18 March 2002 and were signed on its behalf by:

Bruce W M Johnston
director

Gavin R Suggett
director

cash flow statements

	notes	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
operating activities					
investment income received		42,377	37,436	42,556	37,201
deposit interest received		5,899	6,622	2,586	2,978
underwriting commission received		5	4	5	5
savings and pension products charges		1,970	2,205	–	–
miscellaneous income received		127	349	–	–
net amounts received from depositors		9,791	4,341	–	–
expenses		(6,124)	(5,281)	(3,177)	(2,729)
net cash inflow from operating activities	13	54,045	45,676	41,970	37,455
servicing of finance					
interest paid		(1,428)	(1,410)	(115)	(76)
dividends paid on preference stocks		(97)	(97)	(97)	(97)
dividends paid to minority interests		(425)	(425)	–	–
net cash outflow from servicing of finance		(1,950)	(1,932)	(212)	(173)
taxation paid		(3,665)	(3,742)	(2,865)	(3,179)
investing activities					
purchase of investments		(177,324)	(309,710)	(171,028)	(307,430)
disposal of investments		213,549	319,105	206,697	317,305
net cash inflow from investing activities		36,225	9,395	35,669	9,875
equity dividends paid		(34,524)	(33,516)	(34,524)	(33,516)
net cash inflow before management of liquid resources and financing		50,131	15,881	40,038	10,462
management of liquid resources					
cash (placed on) short term deposits	15	(47,543)	(24,278)	(38,983)	(10,594)
increase(decrease) in cash	14	2,588	(8,397)	1,055	(132)

notes to the financial statements

for the year ended 31 january 2002	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
1 investment income				
listed UK	28,320	24,461	27,283	23,465
unlisted UK	252	70	1,527	1,345
listed overseas	12,601	12,036	12,601	12,036
unlisted overseas	781	563	781	563
	41,954	37,130	42,192	37,409
2 expenses				
directors' remuneration	434	336	413	318
staff salaries	2,510	2,129	1,161	1,045
social security costs	248	215	138	122
pension contributions	646	563	328	286
remuneration of auditor and associates – audit	27	25	16	15
– other services	2	2	–	–
other	2,275	2,150	1,102	1,070
	6,142	5,420	3,158	2,856

Details of directors' remuneration are given on pages 24 to 25. The Group employs 100 (89) full time and 19 (18) part time staff, excluding directors. Staff costs are shared with The Second Alliance Trust PLC. Other than the Share Incentive Plan open to all employees, there are no bonus or share option schemes for directors. The management and administration expenses of the Company amounted to £3,158,000 (£2,856,000) representing 0.19% (0.14%) of total assets less current liabilities of £1,673,967,000 (£1,975,574,000).
The other services provided by the auditor were the provision of reports on Alliance Trust Savings Limited to the Financial Services Authority.
The cost of insured benefits for staff including executive directors is included in other expenses.

for the year ended 31 january 2002	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
3 interest payable - all charged to revenue				
on deposits and overdrafts repayable within 5 years not by instalments	1,354	1,336	41	2
on debentures repayable wholly or partly in more than 5 years	74	74	74	74
	1,428	1,410	115	76
4 taxation - all charged to revenue				
UK corporation tax at 30.0% (30.0%)	4,627	4,777	4,061	3,954
overseas taxation	1,740	1,728	1,740	1,728
deferred taxation	(42)	–	(13)	–
recovery of French company tax (avoir fiscal)	(166)	(198)	(166)	(198)
prior year adjustment	–	(363)	–	(363)
	6,159	5,944	5,622	5,121
relief for overseas taxation	(1,740)	(1,728)	(1,740)	(1,728)
	4,419	4,216	3,882	3,393

for the year ended 31 january 2002	total capital		dividends	
	2002 £000	2001 £000	2002 £000	2001 £000

5 called up share capital and dividends

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

	total capital 2002 £000	total capital 2001 £000	dividends 2002 £000	dividends 2001 £000
non-equity stock				
Preference Stocks				
4¼% cumulative preference stock	700	700	30	30
4% cumulative preference stock	650	650	26	26
5% cumulative preference stock	750	750	37	37
4% 'A' cumulative preference stock	100	100	4	4
	2,200	2,200	97	97
equity stock units				
Ordinary Stock				
50,400,000 units of 25p each	12,600	12,600		
interim dividend paid of 28.0p (26.0p) per stock unit			14,112	13,104
proposed final dividend of 40.5p (40.5p) per stock unit			20,412	20,412
	14,800	14,800	34,524	33,516

Provision has been made in these financial statements for the dividends on the Company's preference stocks, which will be payable on 30 April 2002. Dividends on these stocks are paid at the gross rate and carry a tax credit at the rate of 10% of the gross dividend.

for the year ended 31 january 2002	group		company	
	2002 £000	2001 £000	2002 £000	2001 £000

6 return and net asset value per ordinary stock unit

	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
earnings	37,479	34,114	37,699	33,898
capital	(304,562)	86,623	(304,782)	86,839
total return	(267,083)	120,737	(267,083)	120,737
equity stockholders' funds	1,670,119	1,971,726	1,670,119	1,971,726

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

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

notes to the financial statements

for the year ended 31 january 2002	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
7 fixed assets				
office premises freehold/heritable property				
opening valuation	650	622	650	622
surplus on revaluation*	–	28	–	28
	650	650	650	650
investments				
investments listed on a recognised investment exchange	1,604,189	1,942,310	1,584,573	1,921,698
unlisted investments	10,155	7,022	10,155	7,022
subsidiary companies (note 8)	–	–	29,006	29,238
	1,614,344	1,949,332	1,623,734	1,957,958

	group investments £000	company investments £000	company subsidiary £000	company total £000
opening book cost	1,026,369	1,005,956	12,900	1,018,856
opening unrealised appreciation	922,963	922,764	16,338	939,102
opening valuation	1,949,332	1,928,720	29,238	1,957,958
movements in the year				
amortisation	(424)	–	–	–
purchases at cost	176,822	170,526	–	170,526
sales – proceeds	(208,219)	(201,367)	–	(201,367)
– realised gains on sales	22,559	22,559	–	22,559
(decrease) in unrealised appreciation	(325,726)	(325,710)	(232)	(325,942)
closing valuation	1,614,344	1,594,728	29,006	1,623,734
closing book cost	1,017,107	997,674	12,900	1,010,574
closing unrealised appreciation	597,237	597,054	16,106	613,160
closing valuation	1,614,344	1,594,728	29,006	1,623,734

A geographical analysis of the investment portfolio by broad industrial or commercial sector is given on page 12.
A list of the ten largest investments in the portfolio is given on page 13.

8 subsidiary companies

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

name	shares held	principal activity
Alliance Trust Savings Limited (ATS)	ordinary	deposit taking, provision and administration of savings and pension products
Alliance Trust (Finance) Limited (ATF)	ordinary	leasing administration (as agent)
Alliance Trust Leasing Limited (ATL)	ordinary	leasing administration (as principal and agent)

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

subsidiary companies' valuation

The investment in subsidiary companies is valued in the Company's accounts at £29,006,000 (£29,238,000) being the net asset value of the Company's equity interests taking into account the Government securities at market value.

A summarised statement of the balance sheets of the subsidiaries is shown on page 39.

for the year ended 31 january 2002	ATS		ATF Group	
	2002 £000	2001 £000	2002 £000	2001 £000
government securities	10,356	10,250	9,079	10,165
money at call and short notice	58,832	48,800	812	802
loans to parent companies	–	–	16,000	16,000
debtors less creditors	–	–	10	46
	69,188	59,050	25,901	27,013
financed by:				
amounts due to depositors	54,651	47,159	–	–
creditors less debtors	1,946	118	–	–
	56,597	47,277	–	–
shareholders' funds	12,591	11,773	25,901	27,013
	69,188	59,050	25,901	27,013

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

for the year ended 31 january 2002	group		company	
	2002 £000	2001 £000	2002 £000	2001 £000

9 debtors

sales for subsequent settlement	2,365	7,695	2,365	7,695
loan to The Second Alliance Trust PLC (Note 17)	4,000	4,000	–	–
taxation recoverable	610	1,106	610	1,106
deferred taxation	42	–	13	–
prepayments and accrued income	3,793	3,830	2,508	2,704
other debtors	971	694	10	5
	11,781	17,325	5,506	11,510

10 creditors: amounts falling due within one year

amounts due to depositors	54,264	46,399	–	–
purchase for subsequent settlement	4,474	4,976	4,474	4,976
UK corporation tax payable	1,525	1,225	1,225	691
loan from ATF (Note 17)	–	–	12,000	12,000
proposed dividends	20,461	20,461	20,461	20,461
other creditors	3,908	1,687	320	334
	84,632	74,748	38,480	38,462

notes to the financial statements

for the year ended 31 january 2002	group capital reserve realised £000	group capital reserve unrealised £000	group revenue reserve £000	company capital reserve realised £000	company capital reserve unrealised £000	company revenue reserve £000
11 reserves						
beginning of year	996,395	923,272	39,459	995,096	939,461	24,569
exchange differences	(1,399)	–	–	(1,399)	–	–
net gain on realisation of investments	22,559	–	–	22,559	(325,942)	–
decrease in unrealised appreciation	–	(325,726)	–	–	–	–
minority interest	–	4	–	–	–	–
retained net revenue for the year	–	–	2,955	–	–	3,175
end of year	1,017,555	597,550	42,414	1,016,256	613,519	27,744

a

for the year ended 31 january 2002	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
12 reconciliation of movements in stockholders' funds				
opening equity stockholders' funds	1,971,726	1,884,505	1,971,726	1,884,505
total recognised losses and gains	(301,607)	87,221	(301,607)	87,221
closing equity stockholders' funds	1,670,119	1,971,726	1,670,119	1,971,726
non-equity stockholders' funds	2,200	2,200	2,200	2,200

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

for the year ended 31 january 2002	group 2002 £000	group 2001 £000	company 2002 £000	company 2001 £000
13 reconciliation of net revenue before interest and tax to net cash inflow from operating activities				
net revenue before interest payable and taxation	43,775	40,334	41,793	37,464
scrip dividends	–	(95)	–	(95)
amortisation – non-cash adjustment	424	529	–	–
increase(decrease) in accrued income	37	447	196	(41)
increase(decrease) in other creditors	2,221	(2,317)	(14)	117
(increase)decrease in other debtors	(277)	(618)	(5)	10
increase in amounts due to depositors	7,865	7,396	–	–
net cash inflow from operating activities	54,045	45,676	41,970	37,455
14 reconciliation of net cash flow to movement in net funds				
increase(decrease) in cash in the year	2,588	(8,397)	1,055	(132)
cash placed(uplifted from) on short term deposits	47,543	24,278	38,983	10,594
foreign exchange (losses)gains	(1,399)	1,096	(1,399)	1,096
movement in net funds in year	48,732	16,977	38,639	11,558
net funds at start of year	91,113	74,136	30,270	18,712
net funds at end of year (Note 15)	139,845	91,113	68,909	30,270

for the year ended 31 january 2002

15 analysis of change in net funds

	2001 £000	cash flow £000	exchange gains £000	2002 £000
group				
cash at bank and in hand	1,381	2,588	-	3,969
bank deposits	91,380	47,543	(1,399)	137,524
debenture stock	(1,648)	–	-	(1,648)
	91,113	50,131	(1,399)	139,845
company				
cash at bank and in hand	1,339	1,055	–	2,394
bank deposits	42,579	38,983	(1,399)	80,163
debenture stock	(1,648)	–	–	(1,648)
loan from ATF	(12,000)	–	–	(12,000)
	30,270	40,038	(1,399)	68,909

16 derivatives and other financial instruments

The directors' report details the Company's approach to investment risk management on page 29 and the accounting policies on page 31 explain the basis on which currencies and investments are valued for accounting purposes.

An analysis by currency of the net current assets is included in the classification of investments on page 12.

No derivatives were used, and no significant short term borrowings were drawn down during the year to 31 January 2002. The £3,848,000 (£3,848,000) of fixed rate debenture stock and preference stocks which have no fixed maturity or redemption dates was outstanding throughout the year. Their market value at 31 January was £3,125,000, (£3,308,000) a discount to book value of the equivalent of 1.4p (1.1p) per ordinary stock unit.

17 related parties

The affairs of the Alliance Trust Group are managed in conjunction with those of the Second Alliance Trust Group. Although neither parent company is controlled by common stockholders, the composition of the Board of each company is currently the same and for the purposes of Financial Reporting Standard 8 the companies are regarded as related parties, requiring disclosure of material, mutual transactions.

The Groups operate from the same office in Dundee, employ staff jointly and share the cost of common services. The basis of allocation is 75% for the Company and 25% for the Second Alliance Trust Group after allowing for a contribution from ATS and reflects the respective sizes of the companies.

During the year to 31 January 2002 The Second Alliance Trust PLC paid a contribution of £535,000 (£412,000).

The minority interest shareholding in ATF and ATS is held by The Second Alliance Trust PLC. ATF has advanced interest free loans of £12,000,000 (£12,000,000) and £4,000,000 (£4,000,000) to the Company and to The Second Alliance Trust PLC, respectively. The terms of these loans have been extended and they are repayable in September 2002, or earlier by mutual agreement, at three months' notice.

Second Alliance Leasing Limited (SAL), a subsidiary of The Second Alliance Trust PLC, has a deposit facility with ATS, the balance being £254,000 (£327,000) due to SAL.

notes to the financial statements

18 pension scheme

The Group, in conjunction with The Second Alliance Trust PLC, operates an insured defined benefit pension scheme providing benefits based on final pensionable salary. The Scheme's assets, which are invested to finance members' pensions on retirement, are held separately from the Group's funds. The Scheme is administered externally on behalf of the Trustees and it has been their policy throughout to purchase annuities from an insurance company when members retire.

The pension scheme funding rate is determined, at intervals not exceeding 3 years, on the recommendation of a qualified independent actuary. The latest full actuarial valuation report was carried out as at 1st April 2000. The report was produced using the projected unit method of valuation. This report showed assets valued on a discounted income basis at £6,951,000 and a surplus of £250,000 over present value liabilities at the report date.

The principal assumptions used in this valuation were:

• Rate of increase in salaries p.a.	6%
• Rate of increase of pensions in payment p.a.	3%
• Rate of increase of deferred pensions p.a.	3%
• Rate of interest p.a.	7%
• Rate of dividend growth p.a.	3.5%
• Inflation assumption p.a.	3%

Following the recommendation of the report, the Group and The Second Alliance Trust PLC have adopted a funding rate of 23.1% of pensionable salary from 1st April 2000 and this contribution rate will continue until it is reviewed following the triennial valuation of the Scheme as at 1st April 2003. This rate excludes administration fees and insurance premiums for death-in-service benefits which the companies pay separately and which total a further 2.4% (2.8%) of pensionable salaries. The total pension cost (inclusive of administration fees and the cost of insurance of death-in-service benefits) to the participating employers who are part of the Alliance Trust Group was £646,000 (£563,000). The cost to the Company was £328,000 (£286,000).

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs', under Financial Reporting Standard FRS17 'Retirement Benefits' the following transitional disclosures are required as at 31 January 2002 using the different measurement basis prescribed by the Standard. In order to meet these requirements, a separate valuation of the Scheme's present assets and liabilities has been undertaken by the actuary as at 31st January 2002. The assumptions used by the actuary, which meet the requirements of FRS 17, were:-

• Rate of increase in salaries p.a.	4.5%
• Rate of increase of pensions in payment p.a.	2.5%
• Rate of increase of deferred pensions p.a.	2.5%
• Rate used to discount scheme liabilities p.a.	5.75%
• Inflation assumption p.a.	2.5%

On these assumptions, the fair value of the Scheme's assets, and the value of the Scheme's liabilities at 31 January 2002 were:

	£000
assets	10,648
liabilities	10,046
surplus	602

The pension scheme assets are not intended to be realised in the short term and their value may be subject to significant change before they are realised. The liabilities are derived from cash flow projections over long periods and also subject to uncertainty.

The assets of the Scheme at 31st January 2002 were split as follows:

equities	67.8%
bonds	30.0%
others	2.2%

For the purposes of these financial statements these figures are illustrative only and do not impact on the consolidated balance sheet at 31st January 2002.

The expected long term rate of return over the following year is 5.25% for bonds and 7% for equities.

group

As the costs of the Scheme since its inception have been shared as to 75% by the Group and 25% by The Second Alliance Trust PLC, it has been assumed for these purposes that any deficit would be shared in the same proportions.

company

Within the Group, the costs of the Scheme are shared on the basis of the work done by individual members of staff on a day to day basis. The Company pays a proportion of the employers' total contribution, based on the Company's share of staff cost allocation for the year. The Scheme assets are not identified to individuals or to the time periods in respect of which the original contributions were made. Scheme liabilities are identifiable but not to individual participating employers. Consequently, in the terms required by FRS 17, the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Accordingly, the Company accounts for its participation in the Scheme as if the Scheme were a defined contribution scheme.

report of auditor

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

We have audited the financial statements on pages 31 to 42.

respective responsibilities of the directors and the auditor

The directors are responsible for preparing the Annual Report. As described on page 28, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 21 to 30 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by 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 risks and control procedures.

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

basis of audit opinion

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

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

opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 January 2002 and of the return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Saltire Court
Edinburgh
EH1 2EG

18 March 2002

information for stockholders

incorporation

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

general enquiries

If you have a general enquiry please contact the Investor Relations department at our registered office:

Meadow House, 64 Reform Street, Dundee DD1 1TJ
tel: 01382 306006 • fax: 01382 225133
e-mail: contact@alliancetrusts.com

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

registrars

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

Computershare Investor Services plc, PO Box 435,
Owen House, 8 Bankhead Crossway North
Edinburgh EH11 4BR
tel: 0870 702 0010 • fax: 0870 703 6413

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

news

The latest information about the Alliance Trust and Alliance Trust Savings is available at www.alliancetrusts.com.

confidentiality

We are unable to prevent other parties using the Company's register for marketing or other purposes. If you wish to limit unsolicited mail, you may contact the Mailing Preference Service at FREEPOST 22 London W16 7E2. Information held by ATS is not given to other parties for marketing purposes without the client's consent.

stock price information

Daily price, net asset value and discount information is available on our website www.alliancetrusts.com. Information is also available on BBC Ceefax (page 221). Prices are also available from the FT website www.ft.com. Alternatively real time prices are available from the Financial Times Cityline Service on 0906 8431570. Calls are charged at 50p per minute.

electronic communications

We are now able to send you annual reports and notices of meetings electronically instead of in paper format. If you choose to register, an e-mail is sent to you telling you that a report ot notice is available and provides a link to the website where it can be accessed. If you wish to register please log on to www.alliancetrusts.com/ec.htm

dividend payments

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

financial calendar

final dividend and agm (year to 31 january 2002)	
ex-dividend date	10 April 2002
annual general meeting	26 April 2002
final dividend payment date	30 April 2002
interim dividend (year to 31 january 2003)	
announcement date	19 August 2002
ex-dividend date	18 September 2002
interim dividend payment date	4 October 2002

dividend reinvestment

Dividends may be reinvested in further stock units through the Alliance Select Investment Plan. For information please contact ATS on 01382 306006.

income tax on dividends

Dividends paid by the Company carry a tax credit at 10% of the gross dividend (being the net dividend plus the 10% tax credit).

- Where the stock is held in a PEP or ISA, tax credits on dividends paid before 6 April 2004 may be reclaimed by the PEP or ISA manager.
- Individual UK taxpayers who are not liable to higher rate tax and who hold their stock outside a PEP or ISA incur no further income tax liability.
- Higher rate UK taxpayers, who hold their stock outside a PEP or ISA, are subject to income tax at 32.5% of the gross dividend, but are able to set the tax credit off against part of this liability.

tax vouchers

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

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

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

capital gains tax

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

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

investor seminars

Details of investor seminars which we are holding appear on page 47. In addition, at the annual general meeting there will be presentations by Gavin Suggett, Chief Executive and Sheila Ruckley, Investor Relations Director. Following refreshments, there will be a presentation at 1.30pm by ATS. Stockholders and ATS clients are invited. Time will be set aside to answer your questions.

savings products

alliance trust savings limited (ATS)

Our savings products comprise the Alliance Select Pension, PEP, ISA and Investment Plans and the Alliance CAT ISA, the only investment trust ISA in the UK to qualify under the Government's CAT standards in respect of Charges, Access and Terms. All these products are provided and administered in-house by ATS, our banking and financial services subsidiary, using our own staff and systems.

Each product has different tax rules and advantages. The Investment Plan is unrestricted in size but has no tax advantages. The PEP and ISA are both tax-free but subscriptions (of up to £7,000 per year) can only be made to the ISA. The Pension attracts tax relief on contributions and there is no additional tax on income received in the Plan. However it has limits on contributions, and pension benefits cannot be taken before age 50.

alliance select philosophy

The Alliance Select Products are designed with four key principles in mind:-

- All investors are stockholders in The Alliance Trust PLC or The Second Alliance Trust PLC. Each customer thereby has a direct interest in the success of the organisation as a whole. The minimum investment is £50.
- The products are designed for long term investors but recognise that there will be times when financial plans have to be changed. To achieve flexibility subscriptions can be started and stopped without penalty, purchases made or deferred and investments sold, when required.
- We aim to cater for investors who wish to manage their own portfolios as well as those who wish to delegate some or all of their investment management through use of managed funds. We therefore provide a wide range of over 200 investment trusts, over 400 equity securities and a selection of corporate bonds, gilts, bond funds and a deposit account facility from which investors can choose on a self-select basis.
- To limit cross-subsidisation between investors charges are levied on a transaction basis according to the work involved and there are no annual or ad valorem fees. In particular this means that large investors do not subsidise small ones, inactive investors do not subsidise active ones and long term investors do not subsidise short-term ones. The low charges also reflect ATS' bargaining power, with over £1bn of investors' *assets being administered, and the economies of scale* available, particularly through the use of modern computer systems. For example, for purchases of Alliance Trust stock the dealing charge is only £1, regardless of the amount invested, plus the unavoidable 0.5% stamp duty reserve tax.

stakeholder and CAT standards

CAT (Charges, Access and Terms) standard products require, amongst other matters, charges to amount to no more than 1% per annum including government stamp duty and all other costs. The Alliance Select products do not qualify for CAT standards because the charges are transaction rather than percentage based, even though in many instances they will not exceed 1%. For example ATS makes a £1 charge on a £50 investment in the Alliance Trust and charges the same amount on an investment of £5,000. The former would break the 1% CAT standard limit, the latter would not.

Stakeholder pensions comply with similar criteria to the CAT standards, but otherwise follow the same tax rules as other money purchase pensions. We decided not to develop a stakeholder pension because the impact of annual changes over the long term is significant, and, for a pension investor, the expenses of the Alliance Select Pension may be considerably below the 1% level, depending on the investor's investment and activity.

alliance select pension

Our self-invested personal pension (SIPP) is our fastest growing product, reflecting the wish of many individuals for a pension which is designed to be capable of travelling with them throughout life, with sufficient investment flexibility and choice for a complete portfolio to be built around pension planning with one pension provider. A pension is now a true cradle to retirement savings product as the tax rules introduced last year allow children and non-earners to have pensions, as well as those who have earned income. The core investment of the Alliance Trusts is the first building block in a pension for a child but the flexibility of the Select Pension means that as time passes and pension assets grow, investments can be changed without moving providers and without having a number of small, separate and potentially uneconomic pension plans.

alliance select PEP

Transferring PEPs to ATS has recently become even more attractive for many individuals. Since the PEP rules were changed in 2001, the whole of a PEP can be invested in the Alliance Trusts as a low cost solution for those who want stability and simplicity in their PEP portfolio. For those who wish to manage a spread of investments, the investment choice given by the Alliance Select PEP allows consolidation of PEPs held elsewhere thereby enabling rationalisation and potentially more economical management. Finally, ATS is waiving PEP transfer-in charges until 5 April 2003.

alliance select and CAT ISAs

The same features of the Alliance Select PEP are available in the Alliance Select ISA which, as well as accepting transfers, is available for subscriptions up to the annual £7,000 limit. Stocks and shares and cash components are available on a maxi or mini basis with the cash component also available on a TESSA-only basis. Tax-free interest is payable in the cash component and the full Select choice of securities is available in the stocks and shares component. As with the PEP, ATS is waiving ISA transfer-in charges until 5 April 2003.

For investors seeking a simple core investment in the Alliance Trust only with a 0.75% annual charge, the Alliance CAT ISA is available.

alliance select investment plan

Our Select Investment Plan is a general purpose, flexible savings vehicle for your core investment and for your investment portfolio. It is popular with those investing for themselves, their children and their grandchildren, and many trusts also use the Plan to hold their investment portfolios. Subscriptions are often made by regular direct debits to reduce investment timing risk and to benefit from pound cost averaging.

alliance investor seminars

We shall be hosting a number of seminars for private investors which will be held at the locations set out below. We extend an invitation to all stockholders who would like to come along to learn more about the Alliance Trusts and our savings products. Those attending will be able to meet informally with directors and the Company's management. Representatives of ATS will be present to provide information on ATS products.

If you would like to attend (free of charge) any of these seminars, please telephone us on 01382 306006 or e-mail us at contact@alliancetrusts.com

date	area	venue
22 May 2002	North East England	Gosforth Park Racecourse, Newcastle
24/25 September 2002	South East	Denbies' Wine Estate, Dorking, Surrey
26 September 2002	South East	Royal Windsor Racecourse
14 November 2002	West Scotland	The Hilton, William Street, Glasgow