SC001731

The Alliance Trust PLC

report & accounts

for the year ended 31 January 2001

IAM

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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.

This has been another record year for us and one in which our fundamental approach to investment has again delivered value. We avoided the full impact of the precipitous falls in the technology, media and telecommunication sectors and our stocks outperformed in nearly all the markets in which we are invested. Our net asset value increased by 4.6% compared with 1.8% for the FTSE Actuaries All-Share Index and we have increased the dividend by 3.1% to give a total return of 6.4%. This return does not match the absolute increases achieved in some earlier years but in a time of continuing subdued inflation lower monetary returns have to be expected.

With the slow down in the world economy, this is a difficult time for long term investment and, as equity investors, we cannot escape the roller-coaster of markets. However, with no gearing, an expense ratio of 0.14% and a yield of over 2% we are confident that we are in a good position to secure the long term real returns which we continue to believe are offered by equities.

Good investment performance is an essential prerequisite in creating long term demand for our stock but the ongoing balance between supply and demand also needs careful monitoring. One route is to try to regulate this balance by introducing a policy of share buy-backs but such a policy can raise questions of fairness among shareholders and risks diluting the historic strength of the closed end aspect of trusts in depressed markets. We prefer to continue creating a sustainable long term demand for stock through Alliance Trust Savings (ATS). This business provides stockholders with a savings as well as an investment service and this year passed the £1bn mark of investors' funds. The total amount invested in investment trusts is £600m, made up of £280m in the Alliance Trusts and a total of £320m in other investment trusts. Currently just over 11% of the Alliance Trust is held in ATS plans.

We see great scope for the continued expansion of this business: changes to PEPs and pensions in April 2001 will assist this process and, longer term, our in-house expertise, technology and low cost base give us a considerable competitive advantage. The success story of ATS is not widely known as growth in customer numbers has been achieved largely through word of mouth recommendation. This method of distribution should continue, but we have decided that ATS has now reached a size where it is appropriate from a business and corporate viewpoint to raise the profile.

We welcome to the Board Sheila Ruckley, who was Company Secretary for 11 years and who has also played a significant role in the development of our savings products business. She has particular responsibility for investor relations, including raising the awareness of the Alliance Trust and of ATS and its products. New initiatives are already in hand and the next year promises to be an exciting one.

We also welcome Bill Jack, who has joined the Board as a non-executive director. He retired recently as managing director of CGU Life, a very successful savings and investment business, and his knowledge and experience have already been of considerable value to us.

Andrew Thomson is retiring at the AGM having served on the Board for 12 years. His deep understanding of the culture and qualities which make the Alliance Trust the highly respected company it is, have been of great help to us all in driving, and adapting to, the wide range of changes we have seen in recent years and I am particularly grateful for his contribution.

Bruce W M Johnston

financial highlights

performance years to 31 january

stock unit data		year to 31 january 2001	year to 31 january 2000
dividends	interim paid October 2000	26.0p	24.0p
	final proposed May 2001	40.5p	40.5p
	total	66.5p	64.5p
net asset value (NAV) per ordinary stock unit (at 31 January)		£39.12	£37.39
price per stock unit (at 31 January)		£33.57½	£30.52½
discount (at 31 January)		14.2%	18.4%
company total expense ratio (expenses ÷ closing NAV)		0.14%	0.13%
returns		**one year**	**ten years**
dividend – compound rate of income growth pa		3.1%	5.2%
NAV – compound rate of capital growth pa		4.6%	12.2%
total return on Company's assets – pa (NAV) note 1		6.4%	14.2%
total return on stockholder's investment (stock price) – pa note 1		12.2%	16.2%
total return on FTSE Actuaries All-Share Index – pa (net) note 2		4.1%	14.8%
average annual rate of inflation (RPI)		2.7%	2.8%

Note: 1 *These returns include income and capital gains and are approximately* equal to the annual compound growth in net assets/stock price added to the net yield on the portfolio/stock.

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

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
1991	628.6	26.0	20.5	40.66	40.00	12.39
1992	779.6	27.8	21.9	43.50	43.00	15.39
1993	900.6	28.8	23.0	45.70	45.00	17.79
1994	1,078.9	29.7	23.8	47.28	47.00	21.33
1995	954.6	32.7	27.1	53.79	50.00	18.85
1996	1,228.3	34.4	28.4	56.30	53.00	24.28
1997	1,358.8	34.9	29.5	58.61	55.50	26.88
1998	1,564.6	38.8	32.7	64.89	59.00	30.97
1999	1,729.9	40.1	33.2	65.95	62.50	34.25
2000	1,888.4	41.0*	34.7	68.86	64.50	37.39
2001	**1,975.6**	**40.3**	**33.9**	**67.26**	**66.50**	**39.12**

* From 2000, income excludes the associated tax credit.

business outlook

Our approach captures the best of both the investment and savings businesses - a reliable core investment and an increased flow of long term investors.

In this section we report on how we see the outlook for all aspects of our business.

As the UK population ages and state pension provision declines, the need to manage wealth efficiently impacts on ever greater numbers in society, and we are seeing the increasing importance of saving through pension funds and other vehicles. We expect this trend to continue and our role to become more focused on the provision of an integrated savings and investment business for stockholders.

corporate structure

We believe that closed end investment trusts on their own have proved to be, and will continue to be, extremely effective long term investment vehicles. However, this structure does not in itself easily accommodate the requirements of a customer led savings business or the equitable division of the inevitable marketing costs.

These issues have been debated in the press over the last year with comment on the future of investment trusts, discounts, the activities of predators, buy-backs from institutional holders and the role of marketing. Not all comment has been well informed but there is no doubt that there are industry-wide issues to address and change is taking place. Our policies on these issues have been explained in previous Reports and can be found on our web site www.alliancetrusts.com (FAQs), or obtained from the Company Secretary. They centre on the robustness and efficiency of the Alliance Trusts as investment vehicles together with the successful development of the savings business of Alliance Trust Savings (ATS). Our approach captures the best of both the investment and savings businesses - a reliable core investment and an increased flow of long term investors.

investment

The increased volatility of markets has been well illustrated by the fall in the technology, media and telecommunication (TMT) sectors over the last year, and the coming year will almost certainly produce its fair share of upsets. There has been a noticeable increase in the risks facing companies, profits and market valuations, both as a result of changes in the way companies have been valued and as a result of the re-emergence of the economic cycle. No economy is insulated from world wide trends and the all-pervading influence of the US.

Maintaining consumer, business and market confidence will be difficult, but the Federal Reserve has already lowered interest rates and its record in controlling the US economy has been generally good. We expect further falls in interest rates globally, and this could stimulate equity markets and render alternatives less attractive. However, in the near term, progress is unlikely to be smooth but we feel comfortable with no gearing and a flow of income which should support a growing dividend.

Further out, we still see better returns from equities than other asset classes as they represent the primary route to real assets and enterprise. They also provide some protection should monetary and fiscal relaxation lead to a return of more serious inflation, although at present we think this unlikely. What is clear, however, is that technologically-driven productivity and further industrial and economic restructuring in Europe and Japan will offer both challenges and opportunities for investment.

Geography will continue to matter, but less so than in the past because of the significant range of activities now operating on a global scale. The background of change and the speed with which markets now react make either geographic or sectoral specialisation fundamentally more risky than ever. Our widely diversified international portfolio should provide the real returns and store of value we seek without excessive positioning risk.

savings

There have been remarkable changes in the savings industry over the last decade. Demand has been stimulated, competition opened up, regulation improved and better information provided. There is now a more level playing field but change is nowhere near complete and we see huge opportunities for cost efficient suppliers in this market. CAT and Stakeholder standards are only a very crude start to the process. ATS has built itself a secure position free from the baggage of history, has a business model which works, and faces an expanding market for long term investment. This should ensure a good long term future.

Immediate opportunities are particularly attractive. Legislative changes to ISAs, PEPs and personal pensions due to come into effect on 6 April 2001 will considerably enhance their attractions. The extension of the £7,000 limit to 2006 should assist continued ISA growth and the consolidation of General and Single Company PEPs should enhance our positive net cash flow into PEPs from transfers out of the schemes of other providers. The availability of pensions to those without earned income opens up a raft of new opportunities for investment in our products.

The ATS newsletter

These changes should enhance the demand for stock of the Alliance Trusts, as could the PEP changes. The harmonisation of the PEP and ISA investment rules will enable PEP investors to invest in the Alliance Trusts without restriction. This means that over £600m currently invested in other securities and investment trusts could now be invested in Alliance Trust stock. Although we do not expect investors to make any dramatic moves immediately, we do expect the shape of PEP portfolios to change over time.

To meet these opportunities ATS has invested heavily to expand capacity. New technology for client service staff, training and extra accommodation all provide the platform for this expansion. The computing side has been strengthened further with additional technical skills and capacity is being enhanced to handle the demands expected from "ATS On-Line". A new department has been created to bring together and expand product development, events management, marketing and sales activities. Together, these developments should enable ATS to continue to add to the service to current investors, to build on its strong and unique position in the marketplace and to provide a positive return on this investment.

business performance

Our stock performance was positive in all regions. ATS had another highly successful year with investors' funds growing by 19%.

The Chairman has commented on the overall results and the highlights are set out on page 3. In this section of the report we explain those results and summarise our position at the end of the year. It is followed by the Portfolio Review in which our investment position is discussed.

earnings

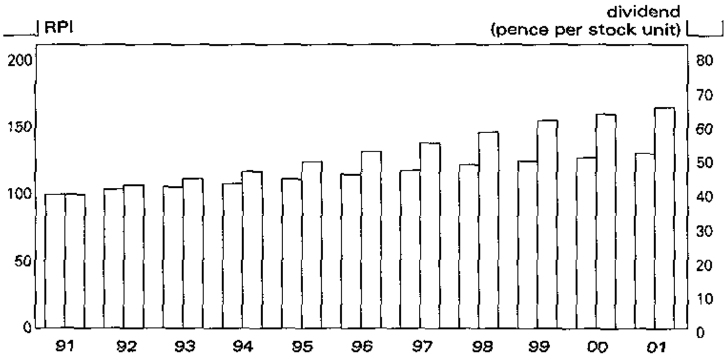
Headline earnings show a 1.7% fall against last year's figure which, as indicated then, had been boosted by exceptional one-off dividend receipts resulting from widespread corporate restructuring. This year exceptional receipts have continued but at lower levels and the earnings of 67.7p per stock unit include only about 2p of such exceptionals.

During the year our underlying earnings benefited from dividend increases averaging about 6%, from the effects of some sterling depreciation and interest rate movements, and from our oil and gas royalty income inflated by high energy prices. Consolidated earnings also benefited from the activities of our subsidiary, ATS, which had an exceptionally good year, generating a 14% return on capital due to volume growth and the enhanced banking margins which prevailed over the year. Against this, the migration of our portfolio from mature industries to those promising higher future returns, but yielding less in the short term, continued to impact on our revenue account.

Total expenses grew by 9% mainly as a result of increased staff costs in the investment and the savings businesses. These costs will increase further as we recruit to manage ATS' growth and the ever-widening range of investment opportunities. ATS' costs are more than covered by its own revenue and the investment business costs remain at an exceptionally low level, 0.14% of net assets or 0.10% after tax relief.

dividend

dividend



Last year, in the interests of smoothing the flow of income for stockholders, we retained a substantial proportion of the exceptional dividend receipts. This year the distortions are less and we are proposing to distribute 99% of consolidated net income. We continue to see the dividend as a very important element of stockholder returns and its growth ahead of inflation as part of our investment aims. Revenue reserves now more than cover a year's dividend and, with no ongoing expenses charged to capital, future dividend flows are reasonably assured.

net asset value

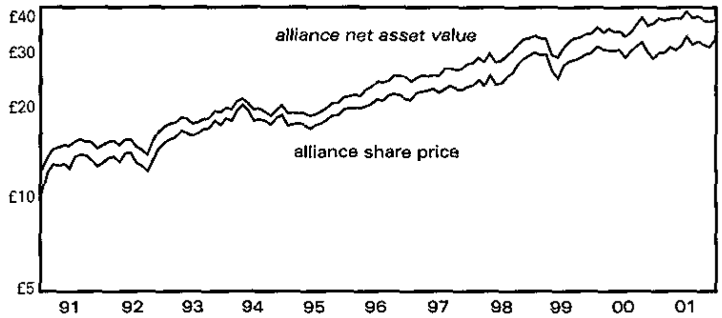
Nowadays it is not unusual for market prices to move more than 1% almost instantly and, as a result, the valuation of any portfolio on any one day is something of a lottery. This volatility, the lack of any deep liquidity at these prices and holdings of unquoted investments also mean that valuations take on a degree of spurious accuracy. However, there is no better measure of value and net asset values are widely used for performance measurement and comparisons. The FTSE Actuaries All-Share Index rose by 1.8% over the year to 31 January; our own net asset value (NAV), including ATS at book value, increased by 4.6%.

stock price

The same caveats apply for returns based on stock prices and this year the 4.6% NAV increase translated into a 10% increase in the stock price or a 12.2% return on capital including net dividend income. All stockholders received the dividend but none could have both bought and sold at the closing mid-market prices to receive that 12.2% headline return.

The reason for the discrepancy in NAV and stock price returns emanates from changes in the way the market prices the stock units in relation to the assets. We reported a difficult year to January 2000, primarily because we were under-invested in TMT stocks, which had soared in value, and we had not borrowed to finance this kind of investment. This blemish to the good long term performance record coincided with a selling programme by a large institution, which, although not involving Alliance Trust stock, depressed the whole market for investment trust shares for some months. The position has now come more into balance with many investment trusts buying in their shares from institutional holders and, in our case, the retail demand through ATS taking up supply, particularly now that the TMT bubble has burst and our relative performance is visibly improving again.

alliance trust nav and price



source: Thomson Financial Datastream

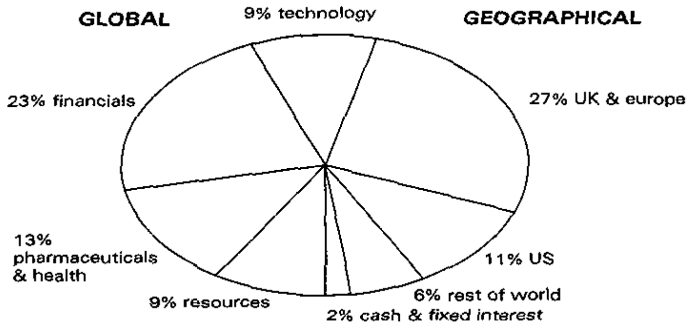
management

The growth of the savings side of the business and wider investment opportunities has been accompanied by an expansion in staff numbers to over 100. During the year we reviewed the management structure and implemented a number of changes with a view to delegating more day-to-day decision making and co-ordinating the activities of the organisation as a whole. An Executive Committee has been formed consisting of the three executive directors, two senior members of the investment team and the managing director of ATS.

Traditionally we have taken a low profile approach to marketing, preferring to focus on the effective management of our investments and the provision of efficient and cost effective savings products. We did not subscribe to the AITC "its" campaign, partly because of cost, but also because we wish to be in control of how and where resources are committed to investor communication. We also considered that we were already supporting the investment trust industry significantly through ATS, in whose products over £600m of investment trust shares are held. We are, however, convinced that for the development of the savings side of the business and the efficient provision of a healthy flow of investors seeking our core investment, marketing, in its widest sense, is essential. To ensure that current investors do not subsidise the cost of attracting new investors and for business, legal and regulatory reasons, marketing initiatives are conducted through ATS. Steps already taken to raise our profile include the launch of the web site (www.alliancetrusts.com), a programme of regional seminars for investors and visits to strengthen relationships with stockbrokers, financial advisers and the press.

business performance

asset distribution



On the investment side, industrial and market globalisation has convinced us that the moves we made two years ago to organise our investment resources more by industry than geography were appropriate and we have continued to progress this. The oil and resources, pharmaceutical and health care, technology, and financial sectors are now managed globally. The remaining sectors are managed in the three regional blocks - Europe (including the UK), North America, and the Rest of the World. We have continued to strengthen the investment team which now numbers 20.

investment approach

Our approach to investment is to decide on the individual investments we wish to hold rather than being dominated by a theme, such as old/new economy. When making these individual investment decisions we do however need to take into account economic, industrial and market conditions as well as looking at the individual stocks. Some of the influences over the last year are explained next.

economies

In a world increasingly dominated by global influences the state of the US economy is of critical importance and the year saw a number of significant changes. Higher interest rates finally began to slow the US economy in the early summer and, contrary to many expectations, the business cycle reappeared in the all important technology sector. The position deteriorated in the autumn, exacerbated by the marked effect of the strong oil price on consumer incomes and the negative wealth effect of the end of the TMT bubble. This showed up the degree to which technology investment dominated US capital expenditure and the need for healthy capital markets to finance it. There is now substantial overcapacity in this sector and the economy will have to rely on consumer demand and higher 'old' economy investment to sustain growth, profits and market values.

Aggressive interest rate cuts have been made and cuts in taxes suggested by the new President look more likely. However the US current account deficit has been financed, and the dollar supported, by large capital inflows, most recently from Europe. Any sharp erosion of this situation risks global destabilisation.

comparative investment returns to 31 january 2001

total return capital and income (% per annum)	1 year	10 year
Alliance Trust net asset value•	6.4%	14.2%
Total return on stockholder's investment (stock price)•	12.2%	16.2%
FTSE Actuaries All-Share Index †•	4.1%	14.8%
US Standard and Poor's 500 Index (£)†	9.9%	20.9%
FTSE WI Europe (ex UK) (£)†	13.0%	17.9%
Tokyo (£)†	-21.8%	2.3%
Redemption yield on UK gilts (before tax)*	6.4%	10.2%
Cash (net interest; deposit of £25,000 +; < 90 days notice - Standard and Poor's)**	2.3%	3.4%
Retail Price Index	2.7%	2.8%

• *See notes on page 3*
† Source: Thomson Financial Datastream
* Source: Bloomberg
** Source: AITC

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

In addition there is serious concern for Japan's recovery should the US appetite for imports deteriorate.

Europe has so far mostly escaped the first wave effects of the US slow down, with its domestic economies relatively strong and helped by the weak Euro. In the UK considerable adjustments had been made as a result of the negative effects of the pound's earlier strength, and few signs of significant UK economic slowing are yet evident. Housing, consumer demand and incomes remain buoyant, which makes the task of managing UK monetary policy more difficult.

companies

Even if economies achieve a soft landing there is a growing awareness of the possibility of a 'profits recession' because of the effects on profit margins of the set-back in the technology industry, capacity increases and a very competitive world economy. This has been exacerbated by increased borrowing taken on by many companies with already high operational gearing. It is proving very difficult to predict the effects of a slowing economy on these companies, especially as the quality of past earnings, which have benefited from strong stock markets, has been put in doubt.

In the 'old' economy considerable restructuring in the West has continued. This has been highly effective in stripping out costs and, for those who have survived with good cash flow disciplines and sound financing, the prospects are better. Their sustainable growth rate may be less than previously but could nonetheless remain attractive in relative terms.

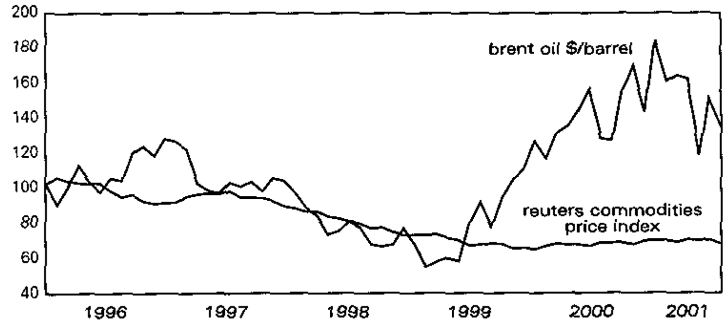
markets

The NASDAQ index in the equity markets chart on page 10 shows that the most dominant stock market event was the rise and fall of the TMT stocks. The recovery of 'old' economy stocks and sectors enabled the broad indices to advance in capital terms, although at lower rates than in recent years. The US market, having risen 20% in each of the last 5 years, was up 8.7% in Sterling terms helped by a good range of defensive stocks. Sterling's earlier strength held back the UK's appreciation to 1.8%, the weak Euro helped Europe rise 11.2% in Sterling terms but the faltering economies in Japan and Asia caused significant falls there.

The main force behind capital appreciation in recent years has been the increase in the valuations placed on companies' shares, helped by the decline in inflation rendering real growth more valuable. The limit to this process was finally reached and markets are now recognising that, from here, appreciation is much more dependent on profits growth. This has caused extreme divergence between market sectors and is the main reason for the good performance of our stocks against market averages across the board this year.

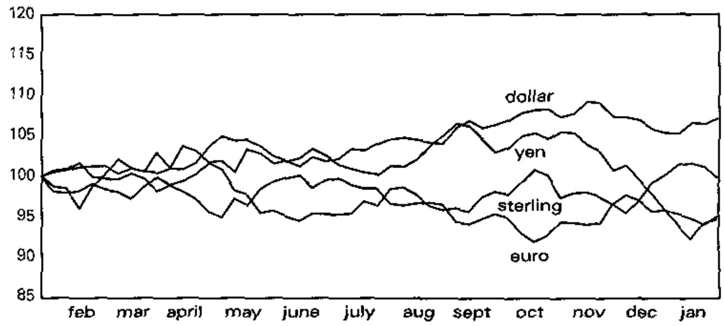
Some of the volatility has been caused by the workings of the markets themselves, in particular the slavish following, by index funds and many institutions, of market weightings in stocks where there is already a restricted availability of stock. This problem should be reduced by the revision of indices to a free float basis but, given the greater risks associated with many companies, volatility is likely to remain a feature of markets and stocks. These risks are being increasingly recognised in valuations and is one of the reasons why we aim to hold such a well diversified portfolio of over 400 companies.

oil and other commodity prices



source: Thomson Financial Datastream

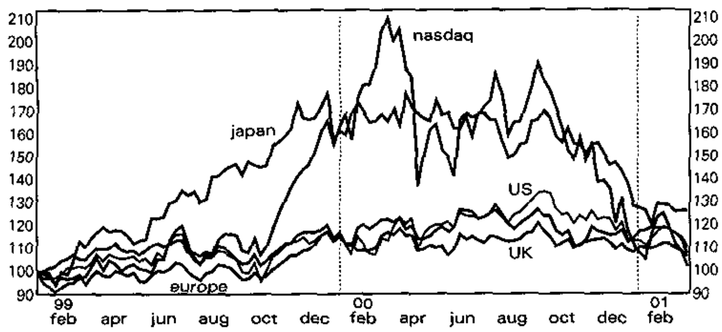
dollar, yen, sterling and euro
trade weighted



source: Thomson Financial Datastream

business performance

equity markets - sterling adjusted



source: Thomson Financial Datastream

investment performance

In the long run we must be measured on the basis of the total real return on capital invested, but in the short term, as a UK based equity fund, we compare the growth of our net assets with the broadly based FTSE Actuaries All-Share Index. The table at the foot of the page shows that growth was positive and exceeded this index over the one and ten year periods.

Over the last year our net assets increased by 4.6% compared with 1.8% for the UK market, the extra coming from the better returns in overseas markets and better than average performance from our stock holdings. The US and most European markets, where we held over 37% of our assets, last year outperformed the UK, but the 22.2% fall in Japan held back the gain. Our stock performance was positive in all regions with a particularly strong contribution from our US portfolio. Over the longer term we outperformed the UK index in capital terms but the outperformance of our stocks this year did not compensate for the underperformance of our US portfolio when technology was in the ascendancy.

investment position

To achieve a long term performance, without taking undue risks, we aim to hold a diversified "all weather" portfolio consisting of a range of equities which will, we believe, cope with the variety of economic conditions which are likely to lie ahead. The chart on page 8 shows how our assets were held at the end of January and the table on page 12 gives a geographical and sector analysis.

Our portfolio contains a mixture of 'old' and 'new' economy stocks although, during the year, we have taken the opportunity of more reasonable valuations to add to those holdings which are likely to benefit from long term technology-driven productivity growth. This has been done mainly at the expense of some specific stocks in the retail and service sectors where competition, over-capacity and unfavourable market conditions made earnings prospects in an already difficult economic environment less attractive.

The balance between 'new' and 'old' economy stocks and between UK and overseas stocks is constrained to some extent by our wish to see some visible benefit of investment in the form of dividends. This is not a bad investment discipline given that it requires profits to pay the present generation of savers' pensions, for example, and the last year has shown how dangerous it is to rely on untried business models and growth at any price.

Details of the major holdings and some of the thinking behind our positions are given in the Portfolio Review on pages 13 to 20.

capital performance attribution analysis	*1 year*	*10 year*
performance attributable to the increase in UK FTSE Actuaries All-Share Index	+1.8%	+192.4%
additional growth from overseas	+1.1%	+43.9%
performance of stocks	+1.7%	-20.7%
increase in net asset value	+4.6%	+215.6%

savings performance

business growth

ATS has had another highly successful year with investors' funds growing by 19% to over £1bn for the first time. The advance of ATS has continued unabated and the chart and the table below both show that growth has covered the entire range of products, including even the PEP which has not been open for new subscriptions since April 1999. Investment in the Alliance Trust kept pace with this growth, increasing 25% to £183m.

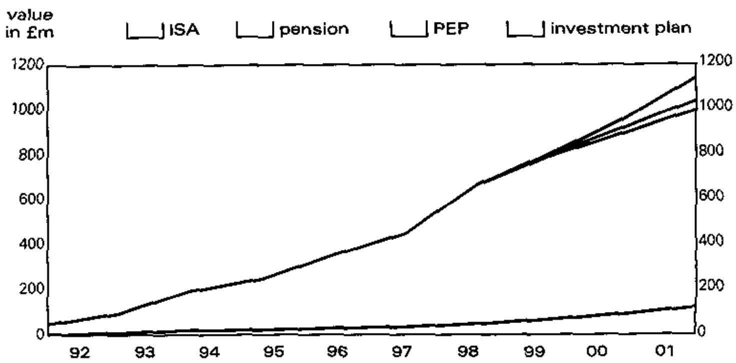
During the year to 31st January 2001 ATS' aggregate net inflows increased by 7% to £122m of which some £36m was received in the form of regular direct debits and accumulating income within investors' plans. Investors continued to be attracted by the benefits of consolidating their PEPs, ISAs and Pension Plans with ATS and its transaction based charging system. We received over 2,000 transfers into ATS and these exceeded transfers out by a factor of 3. This excellent result was achieved profitably against a background of a savings industry struggling to match the 1999 boom when technology stocks led a raging bull market and sucked huge sums into mutual funds.

product performance

The first full year of ISAs has resulted in subscriptions well up to the previous 'last chance' PEP levels, even though the maximum subscription for PEPs at £9,000 was higher. Together, the ISA and the PEP accounted for 75% of ATS' growth, and the increased commitment to holdings in the Company and in the Second Alliance Trust was particularly pleasing. These holdings now account for 34.5% of ISA funds compared with 20% of total PEP funds.

Although not as significant in total, the growth of both the Investment Plan, which is not tax incentivised, and the Pension Plan, was faster than that for PEPs and ISAs combined. In the case of the Investment Plan this faster growth can be attributed to increased investment choice within the Plan and promotion of it as a portfolio service for individuals and for saving for children. In the case of the Pension Plan high growth has come as a result of last year's extension of the plan to the employed together with the increasing number of pension transfers from other providers. These products provide diversity to our business and the potentially huge markets are likely to repay our commitment to development and promotion.

ten year growth



capacity

ATS' growth has been organic and is not reliant on commission driven sales. To achieve such growth, which we believe to be sustainable, we have had continually to increase capacity and develop and improve the products. The last year has been no exception. We have invested in new staff, training, systems, more office space and in the development of the Pension Plan. These costs have been written off against revenue but we are confident that the business model will continue to work and that the resultant growth will more than repay the investment.

ATS growth by product over the year to 31 january 2001	investors		investors' assets*	
	numbers	change	£m	change
Investment Plan	7,616	14%	115	36%
PEP	20,147	-3%	840	9%
ISA	12,530	80%	99	191%
Pension Plan	1,273	55%	40	74%
Total	**31,573** †	**9%**	**1,094**	**19%**

* These included £183m and £98m of stock in the Alliance Trust and the Second Alliance Trust respectively (valued at 31 January 2001)

† Some investors have more than one Plan.

classification of investments

equities (including convertibles*)	UK %	Europe %	North America %	Japan %	Rest of World %	Total 2001 %	Total 2000 %
resources & basic industries							
oil, chemicals & resources	6.9	1.2	1.4	0.2	0.4	**10.1**	9.3
construction & building materials	1.0	0.2	–	0.1	–	**1.3**	0.7
utilities	1.0	0.4	0.7	–	0.1	**2.2**	1.7
total	8.9	1.8	2.1	0.3	0.5	**13.6**	11.7
capital goods							
general industrial	0.4	–	0.8	0.2	0.7	**2.1**	2.5
electronics & engineering	0.9	0.1	2.4	2.2	0.1	**5.7**	6.2
total	1.3	0.1	3.2	2.4	0.8	**7.8**	8.7
technology							
hardware	0.9	1.1	2.6	0.5	–	**5.1**	4.1
software	1.5	0.6	1.9	0.3	0.0	**4.3**	4.6
total	2.4	1.7	4.5	0.8	0.0	**9.4**	8.7
consumer goods & products							
beverages, food & household products	2.6	0.5	0.7	–	0.2	**4.0**	3.1
health	0.5	0.6	1.7	–	–	**2.8**	2.8
pharmaceuticals	5.1	1.5	2.9	0.4	0.1	**10.0**	8.5
packaging	0.1	–	–	–	–	**0.1**	0.1
tobacco	0.2	0.1	0.3	–	0.0	**0.6**	0.3
total	8.5	2.7	5.6	0.4	0.3	**17.5**	14.8
services							
retail	2.0	0.6	2.9	0.4	0.0	**5.9**	7.5
brewers, hotels & leisure	1.9	0.1	–	0.1	0.0	**2.1**	3.0
media	2.3	0.9	0.6	0.1	0.3	**4.2**	6.4
distribution	1.7	0.2	–	0.0	–	**1.9**	2.2
support services	1.7	0.3	0.4	0.3	0.6	**3.3**	4.7
telecommunications services	6.4	0.8	2.2	0.1	0.4	**9.9**	12.6
total	16.0	2.9	6.1	1.0	1.3	**27.3**	36.4
financials							
banks	7.4	2.1	1.5	0.1	1.0	**12.1**	9.0
insurance	3.4	1.8	1.5	–	–	**6.7**	5.5
investment companies	0.6	–	–	0.3	0.4	**1.3**	1.5
real estate	0.7	–	0.2	0.1	0.2	**1.2**	1.1
speciality & other finance	1.6	–	–	0.0	–	**1.6**	1.7
total	13.7	3.9	3.2	0.5	1.6	**22.9**	18.8
total equities	**50.8**	**13.1**	**24.7**	**5.4**	**4.5**	**98.5**	**99.1**
fixed interest	0.6	–	–	–	–	0.6	–
total investments	**51.4**	**13.1**	**24.7**	**5.4**	**4.5**	**99.1**	99.1
other net assets	**-0.3**	**1.0**	**0.2**	**–**	**0.0**	**0.9**	**0.9**
total assets less current liabilities							
2001 £1,975.6m	**51.1**	**14.1**	**24.9**	**5.4**	**4.5**	**100.0**	
2000 £1,888.4m	50.2	16.0	22.4	7.4	4.0		100.0

* Convertibles represent 1.3% (2.0%)

portfolio review

In the table opposite we show the portfolio by industry classification and geographic region. The comparison against last year highlights changes over the course of the year. Below we provide a short commentary on our approach to asset allocation, followed by a review of activity within sectors. The 141 companies listed in this review represent 75% by value of our investment portfolio. The top ten holdings represent 22% of the total investments by value.

asset allocation

Our primary focus is on the stocks within the portfolio and our actions are driven from the individual company level. However, we also monitor the distribution of assets across sectors and regions, to balance capital and income and to avoid undue concentration.

The asset mix within the portfolio is affected by many variables. Individual share price variations, the sizes of holdings, corporate activity, the level of cash balances and currency fluctuations all play a part. General moves in each major market also have a strong bearing on the end result. In the period under review, our exposure to markets outwith the UK was a positive factor, with the exception of Japan, where a fall in the market of around 20% was only slightly offset by appreciation of the Yen.

Last year our actions reshaped the portfolio in a number of ways. A move towards stocks well-placed to benefit from economic stimulus, the introduction of several new holdings and a reduction in more mature areas on high ratings ensure the portfolio is refreshed and ready for the next upturn. We raised our technology weighting as more justifiable valuations became available, but largely retained our significant defensive positions in pharmaceuticals and healthcare. We invested £12m in good quality corporate debt on net yields averaging 7%.

top ten holdings

company		value £m
Vodafone	UK	64.0
GlaxoSmithKline	UK	63.5
Shell Transport & Trading	UK	60.0
BP Amoco	UK	57.2
Royal Bank of Scotland	UK	47.7
British Telecom	UK	30.7
General Electric	US	27.8
Electrocomponents	UK	27.0
CGNU	UK	26.4
Wal*Mart	US	26.0

source: BP Amoco

investment changes (£m)	valuation 31 january 2000	purchases	sales	valuation appreciation (depreciation)	valuation 31 january 2001
resources and basic industries	219	51	(44)	41	267
capital goods	164	21	(40)	7	152
technology	165	97	(21)	(54)	187
consumer goods & products	280	15	(26)	78	347
services	687	56	(121)	(82)	540
financials	357	65	(53)	96	465
total	**1,872**	**305**	**(305)**	**86**	**1,958**

resources & basic industries

source: Exxon Mobil

oil, chemicals & resources		£m
Shell Transport & Trading	UK	60.0
BP Amoco	UK	57.2
Exxon Mobil	US	14.4
Rio Tinto	UK	11.6
Total Fina	France	9.0
Repsol YPF	Spain	7.9
Schlumberger	US	5.1
Air Liquide	France	3.5
SGL Carbon	Germany	2.7
ICI	UK	2.6
Kao	Japan	2.6
WMC	Australia	2.5

construction & building materials		£m
Persimmon	UK	7.5
Aggregate Industries	UK	5.0
Lafarge	France	4.1
Berkeley Group	UK	3.6
Matsushita Electric Works	Japan	1.8
Blue Circle Industries	UK	1.4
Marshalls	UK	1.3

utilities		£m
Scottish & Southern Energy	UK	6.1
Scottish Power	UK	5.3
Constellation Energy	US	4.7
Consolidated Edison	US	4.5
United Utilities	UK	4.1
Suez Lyonnaise Des Eaux	France	3.8
Kelda Group	UK	3.2

oil, chemicals & resources

Measured over the period oil prices were actually flat, but hit a peak of US$38 per barrel in September, whereas natural gas closed the year more than doubled. Unsurprisingly the oil and service companies performed well, and the sector was further boosted by corporate activity. We used the strength in share prices to trim our overweight position, slightly reducing our Shell holding and selling ENI but added to BP and Repsol. In the mining sector, metal commodities prices improved as stocks remained at historically low levels, and we increased our exposure through additions to BHP and RTZ. Chemicals exposure increased via small additions, including Laporte which was subsequently taken over by Degussa.

construction & building materials

Significant additions were made to strengthen exposure to UK housebuilders. We added to our holding in Persimmon and Berkeley Group entered the portfolio. Both offered compelling value and favourable supply/demand dynamics going forward.

Our exposure to European building materials increased slightly with purchases of Lafarge, but we sold our holdings in Holderbank and Italcementi. We also purchased Aggregate Industries for its exposure to increasing UK and US infrastructure spend. The Japanese construction industry remains heavily indebted despite the boost to construction from government stimulation, but Matsushita Electric Works, our one Japanese holding in the sector, continues to benefit from its exposure to Asia, encouraging us to make a small addition.

utilities

The sector's defensive attractions and close correlation with favourable bond price movements resulted in outperformance. Corporate activity was also a beneficial factor and one of our holdings, Thames Water, was acquired by the German utility RWE. The proceeds were partially reinvested into the UK water sector, through Kelda Group. Other transactions included the sale of EDP, reduction of E.On, and increased holdings in Scottish & Southern Energy, Thames Water, United Utilities, National Grid and Scottish Power. In the US, an electricity crisis emerged in California, partly the result of inflexible regulation. The outcome is likely to be longer-term opportunities for utilities aiming to expand in the US, like National Grid which is building a network by acquisition on the US east coast.

capital goods

general industrial

Due to increasingly competitive conditions we reduced our already low exposure to all three subsectors of this group. The companies targeted for disposal were Finmeccanica which had been buoyant on the back of its stake in ST Micro, in turn influenced by the semiconductor industry, and BAE SYSTEMS ordinary shares, following its warning of slowing UK military spending and costs related to the Nimrod refurbishment programme.

Fundamentals in the auto industry deteriorated during the year, with severe over-capacity, disruption caused by the recall of several models and DaimlerChrysler's attempts to stem North American losses at its Chrysler unit resulting in 26,000 job cuts. We cut our exposure through sales of Continental, NGK Spark Plug and PSA Peugeot Citroen.

Swire Pacific was an addition in Hong Kong and we switched between Sumitomo and Itochu, both Japanese trading companies. In the US our Tyco International holding was increased through additional shares received following its agreed merger with Mallinckrodt, a US healthcare company, where we already had an exposure.

electronics and engineering

Engineering stocks struggled throughout the year. Investors' lack of interest and concern over economic slowdown were major factors, leading some UK companies to go private or seek trade buyers. We gained substantially from McKechnie privatising and through Glynwed returning value to shareholders from the sale of its pipe business.

Generally, activity was based around switching and net selling. We sold Nichicon, Noritz and some Ushio, all Japanese holdings which had benefited from a strong run in technology-related shares, and reinvested in Rohm, a large electronics parts maker. We also sold part of our Sony holding ahead of its Playstation 2 launch. Sales elsewhere included reductions in our large holding in General Electric and complete sales of Siemens and Kent Electronics.

Pockets of value and growth still exist and we purchased two new holdings, Heidelberger Druckmaschinen, one of the world's leading commercial printing machine companies, and Xaar, which is engaged in developing new ink jet print head technology. We also added to Daikin Industries and Sato, two leading Japanese companies.

general industrial		**£m**
Hutchison Whampoa	Hong Kong	10.1
Tyco International	US	5.8
British Aerospace	UK	5.5
Pentair	US	4.0
Swire Pacific	Hong Kong	2.5
Rolls-Royce	UK	2.0
Snap-on	US	1.7
Delphi Automotive Systems	US	1.5
Kokuyo	Japan	1.3

electronics and engineering		**£m**
General Electric	US	27.8
Illinois Tool Works	US	9.4
Canon	Japan	9.4
Renishaw	UK	6.5
Matsushita Electric Industries	Japan	6.3
Keyence	Japan	6.0
Hoya	Japan	4.2
Sony	Japan	3.5

source: Tyco International

portfolio review

technology

sources: left: Alcatel, right: Intel

hardware		£m
Marconi	UK	14.1
Cisco	US	13.4
Alcatel	France	9.7
Intel	US	8.4
Nokia	Finland	6.8
Ericsson	Sweden	6.1
Motorola	US	5.0
Sun Microsystems	US	4.8
EMC	US	4.5
Murata	Japan	4.0
Scientific Atlanta	US	3.9
Grainger	US	3.7

software		£m
First Data	US	10.3
SAP	Germany	9.1
Logica	UK	8.9
Misys	UK	8.3
Microsoft	US	6.3
IMS Health	US	4.7
EDS	US	4.7
CMG	UK	3.6
Oracle	US	3.5
Autonomy	UK	3.4

hardware

Slowing capital expenditures in the US caused a marked shift in demand conditions for telecom equipment and computer hardware companies during the year. In turn, component markets and the semiconductor sector moved rapidly from supply constraint to a position of excess capacity in the second half.

Weak industry conditions were inevitably accompanied by a sector-wide contraction in valuations. While the near-term outlook for corporate profits remains uncertain, the long-term case for upgrading infrastructure remains valid, particularly for productivity-enhancing data communication and storage. Consequently, we were able to take advantage of less extreme valuations to accumulate a core position in the sector.

New telecom equipment holdings include Alcatel, Spirent, Scientific Atlanta and Nokia while we added to Cisco Systems and Motorola. Positions in Flextronics and Jabil Circuit give exposure to outsourced manufacturing while, in enterprise computing, we added to Sun Microsystems, EMC and Dell. These were partly offset by disposals of Filtronic and Aspect Telecom.

software

The sector experienced a slowdown in earnings growth during the period. Demand from large corporate customers moderated in the face of a deteriorating US economic picture, the reduced threat of new Internet-based entrants in several industries, and the completion of Y2K related projects. This caused a marked compression in sector valuations.

We maintained our focus on companies offering broad productivity-enhancing solutions and those with strong offerings in new product areas such as knowledge management, security and supply chain management. These segments offer attractive exposure to companies' continued quest for efficiency gains and maintenance of market share.

Purchases were focused on the US and were partially funded by sales in Europe where valuations remained more of a concern. Proceeds from the disposal of Sema and part sales of SAP, Logica and Cap Gemini were put towards new holdings including Oracle, EDS, Baltimore, CMG and Iona Technologies, as well as increasing our holding in Microsoft.

beverages, foods & household products

Stocks within this area benefited from dependable earnings and attractive valuations. In addition the two underlying themes of companies seeking acquisitions to boost sales growth and ongoing rationalisation continued to drive the sector.

Corporate activity was widespread with most of our holdings involved in significant corporate deals. Unilever was most active spending US$27bn on Bestfoods, Slimfast and Ben & Jerry. They also announced "Path to Growth", a new €5bn rationalisation plan, setting out cost cutting targets over the next 5 years. This, combined with their acquisitions, is expected to produce turnover growth and margin expansion, but the targets are demanding. Elsewhere PepsiCo is paying US$14bn for Quaker Oats, Nestle US$11.2bn for Ralston Purina and Diageo US$5bn for most of Seagram's spirits portfolio.

In Europe we added to our holdings in Diageo and in Reckitt Benckiser, through its convertible bond. These were partially funded through sales of Allied Domecq and Royal Canin.

pharmaceuticals & healthcare

The long-term attractions of the industry remain sound, but selectivity is becoming more important due to drug patent expiries. There are also increasing criticisms about levels of profitability across the industry.

We benefited from our overweight positions in both sectors as each performed well, with reliability of earnings being the major attraction. In more general terms, two major events swept through the industry this year. Pfizer and Warner-Lambert and Glaxo and SmithKline combined into two giant pharmaceutical groups, hailing potential benefits of scale and cost synergies. The other was the decoding of the human genome which promises a vast increase in knowledge in diagnosing and treating disease, but not immediately. Meantime, the amount of research required benefits Nycomed Amersham, one of the 'tools' companies operating in this area.

On a stock specific basis we reduced positions in Johnson & Johnson and AstraZeneca, which still has to work through major patent expirations. We started a new holding in Altana, a German company with an exciting pipeline of new drugs.

consumer goods & products

beverages, foods & household products		**£m**
Reckitt Benckiser	UK	15.5
Unilever	UK	13.8
Diageo	UK	12.2
PepsiCo	US	11.6
Nestle	Switzerland	7.1
Geest	UK	2.8
Tate & Lyle	UK	2.6
Allied Domecq	UK	2.4
BRL Hardy	Australia	2.4

pharmaceuticals & healthcare		**£m**
GlaxoSmithKline	UK	63.5
Johnson & Johnson	US	26.0
AstraZeneca	UK	23.3
Bristol-Myers Squibb	US	21.3
Merck	US	19.6
Abbot Laboratories	US	16.5
Novartis	Switzerland	15.5
Celltech	UK	10.3

source: Bristol-Myers Squibb

portfolio review

services

source: Tesco

retail		£m
Wal*Mart	US	26.0
Home Depot	US	16.4
Tesco	UK	13.0
Koninklijke Ahold	Netherlands	6.7
Walgreen	US	6.1
Great Universal Stores	UK	6.0
Kingfisher	UK	5.4
CVS	US	5.1

brewers, hotels & leisure		£m
Granada Compass	UK	14.5
Hilton	UK	10.8
P&O Princess Cruises	UK	4.0
Whitbread	UK	3.3
Bass	UK	2.8
Wolverhampton & Dudley	UK	2.4

media		£m
EMAP	UK	15.4
Pearson	UK	9.3
Vivendi Universal	France	7.3
Carlton Communications	UK	7.2
AOL Time Warner	US	7.1
VNU	Netherlands	5.2

retail

The UK general retail sector is afflicted by intense competition and price deflation, and we reduced our exposure to Marks & Spencer, Kingfisher, Great Universal Stores and Boots. In Europe we exited from all the retailers except Ahold and Castorama. In the US we further reduced exposure to Wal*Mart, Home Depot and Walgreen. Destabilising factors remain in place in the UK retail sectors. Over-capacity and unfavourable customer consumption patterns are influencing the general retailers, while a new round of price competition continues to impact food companies. In the US, consumer confidence holds the key to spending, but a lot depends on low levels of unemployment and discretionary income improvement.

brewers, hotels & leisure

The UK sector enjoyed a robust performance despite dull trading conditions. Companies sought to increase focus, with the likes of Scottish & Newcastle concentrating on brewing, following its acquisition of Kronenbourg, but exiting Centerparcs and announcing a planned partial sale of its pubs. Bass and Whitbread sold their brewing divisions, and are selling pub assets to focus on hotels and leisure. Granada Compass is to demerge into two companies operating separately in hospitality and media. We have decreased exposure to the sector after reductions in the above companies. We invested in the Belgian-based global brewer, Interbrew, which unfortunately may be forced by the Competition Commission to sell its UK brewing assets, and we strengthened our position in the newly demerged P&O Princess Cruises.

media

Media shares experienced a very volatile year with performance finally giving way to increased scepticism about the benefits to be gained from plans to migrate business to the Internet. Earlier in the period we took advantage of strong share prices to sell significant positions in EMAP, Havas Advertising and Seat, partially re-investing the proceeds into a new holding in Reed International and adding to our holding in AOL Time Warner.

During the period corporate activity remained brisk with Vivendi announcing their intention to acquire Seagram for US$39bn and to then merge with Canal Plus. VNU, Reed International, Carlton Communications, Havas Advertising and United Business Media were among the many media companies to be involved in significant corporate actions.

distribution

Electrocomponents, one of our larger holdings, has been investing heavily overseas, and also in a new internet offering, promising benefits in the longer term. During the year we bought attractively yielding convertible preference shares in Premier Farnell, a distributor similar to Electrocomponents, whereas sales were made in Manutan and Takkt, French and German based catalogue distributors.

Transport stocks had a difficult time, suffering from a rise in fuel costs and more recently the impact of slowing economies. We increased our limited exposure to companies with defensive earnings characteristics, good growth prospects and reasonable ratings. New holdings were established in P & O, which operates mainly ports and logistics, National Express, the bus and train operator, and Deutsche Post, the German mail and international freight company.

support services

The sector is going through an evolutionary phase, as new skills and competencies are required to take advantage of the growing opportunities from outsourcing complex systems, such as those of Private Finance Initiatives in the UK and their equivalents elsewhere. Rentokil is not sufficiently exposed to these and we sold out of our long-standing holding. We also sold Servicemaster in the US, which serves similar markets to Rentokil, and some Securitas, which experienced problems with its purchase of Pinkerton. Other sales include Stat Plus, Angelica and Hitachi Transport.

telecommunications services

The telecom sector was weak as pricing pressures and debt problems cramped industry performance. There was concern at the high cost of third-generation mobile licences in Britain and Germany in particular. US local companies saw two high-profile mergers as part of the trend towards consolidation, while long-distance businesses suffered under increased competition.

Our holdings in the US local companies helped to insulate against the problems in the long-distance market. In the UK we increased our exposure to Cable & Wireless and acquired a holding in Energis. Both operate at the leading edge of telephone services and are well placed to take market share from higher-cost operators. Other incumbent European companies lost some of their attractions and we reduced our positions in France Telecom, Telefonica and UPC.

distribution		**£m**
Electrocomponents	UK	27.0
Deutsche Post	Germany	3.5
P&O	UK	1.9
Forth Ports	UK	1.6
Premier Farnell	UK	1.4

support services		**£m**
Hays	UK	18.4
Brambles Industries	Australia	9.5
Serco	UK	6.8
Securitas	Sweden	5.3
SECOM	Japan	4.0
Securicor	UK	4.0
Waste Management	US	3.0

telecommunications services		**£m**
Vodafone	UK	64.0
British Telecom	UK	30.7
Cable & Wireless	UK	20.4
Verizon Communications	US	13.9
Energis	UK	10.9
SBC Communications	US	10.8
Telefonica	Spain	8.8
Qwest	US	7.4
BellSouth	US	6.8

source: British Telecom

portfolio review

financials

source: Lloyds TSB

banks		**£m**
Royal Bank of Scotland	UK	47.7
Barclays	UK	20.9
Lloyds TSB	UK	18.5
Bank of Scotland	UK	17.0
HSBC	UK/Hong Kong	16.1
Standard Chartered	UK	15.7
Halifax	UK	9.4
Banca Nazionale Lavoro	Italy	6.8
ABN Amro	Netherlands	6.5
Abbey National	UK	6.5

insurance		**£m**
CGNU	UK	26.4
Marsh & McLennan	US	15.7
Prudential	UK	13.7
Independent Insurance	UK	12.3
Zurich Financial	Switzerland	11.1
Legal & General	UK	10.3
American International Group	US	9.5
CNP Assurances	France	5.5

banks

The global banking landscape continues to be reshaped by mergers and acquisitions as banks seek to increase their scale. Corporate activity has largely been focused on domestic deals in retail banking, with cross-border moves hampered by a lack of cost synergies, and on building wealth management capabilities. Corporate activity proved to be positive for share prices, particularly for Royal Bank of Scotland which acquired Nat West.

Competition from new entrants remained fierce but incumbents moved rapidly to develop their own, successful, Internet strategies. Credit quality has been a concern for regulators, but assistance has been provided by monetary easing and by new proposals on capital adequacy regulations, which carry incentives to improve risk management processes.

We were net buyers of the sector during the year, adding to established positions and initiating new holdings in Abbey National, Bradford & Bingley, NORDEA, Commerzbank and FleetBoston Financial. Our holdings in Northern Rock and Erste Bank were sold and we trimmed our very large positions in the two Scottish banks.

insurance

Premium rate increases came through in the US and to a lesser degree in Europe, exerting a powerful upward influence on non-life insurers' share prices, although over-capacity is still a long-term problem. We reduced our large holding in Marsh & McLennan, the US insurance broker, and recycled the proceeds towards European insurers.

In the life sector, the mature UK market continued to experience intense competition, exacerbated by the imminent arrival of stakeholder pensions, and the problems of Equitable Life, caused by its guaranteed annuity liabilities, raised regulatory concerns. Across Europe the growth story, based on positive long-term demographic trends and a move towards private pensions, remained intact, but there was some disappointment at the pace of tax reform. The US life sector outperformed strongly helped by further consolidation, with European insurers particularly active acquirers. We established new positions in Royal & Sun Alliance, AXA, Sampo-Leonia and Protective Life.

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. Approval is retrospective and currently given no sooner than 2 years after each financial year end. Express approval has been received in respect of the financial year to 31 January 1999. The Company has submitted the 2000 accounts to the Inland Revenue on an investment trust basis and has continued to conduct 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. There is, therefore, no possibility of a conflict of interest between the Company and a third party investment management company.

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 institution under the Banking Act 1987 and is regulated for investment business by the Personal Investment 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/Savings Plans and Pension Plans) 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 2001 the Company had 29,146 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 operated by ATS which, at the same date, held 10.94% of the Alliance Trust ordinary stock for 23,295 investors. Since 31 January this figure has increased to over 11%.

board of directors

Bruce W M Johnston
CA (62) *†
chairman
non-executive

Bruce Johnston, a Chartered Accountant, was a partner of Arthur Young (now Ernst & Young) between 1970 and 1986, concentrating on audit and advisory work for companies and private clients. He moved to the commercial sector in 1986 and was Executive Chairman of City Centre Restaurants Plc, based in London, from 1988 to 1996, combining general management with responsibility for finance and investor relations. He joined the Alliance Trust in 1991 as a non-executive director and was appointed Chairman in 1996. He is also chairman of the Audit Committee. He is a director of Mid Wynd International Investment Trust and Scott & Fyfe Limited, an unlisted industrial fabrics company.

Gavin R Suggett
MA MSc FCA (56)
chief executive

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

William Berry
MA LLB WS (61) *†
non-executive

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

William H Jack
(56) *†
non-executive

Bill Jack worked for an independent insurance broker before joining General Accident Fire & Life Assurance Company in 1973. He became managing director of GA Life in 1991. Following the merger of GA and Commercial Union in 1998 he was appointed managing director of CGU Life with responsibility for the UK life and unit trust business. Following his retirement from CGU Life he was appointed a non-executive director of the Alliance Trust in November 2000. He is also a director of the Skipton Building Society.

W Nelson Robertson
CBE MA FCII (67) *†
non-executive

Nelson Robertson, spent his career at General Accident Fire & Life Assurance Company, becoming a director in 1984 and Group Chief Executive in 1990. Following his retirement, he became a non-executive director of the Alliance Trust in 1996. He was a director of Morrisons Construction Group plc until 31 January 2001. He is a director of Edinburgh Leveraged Income Trust PLC and ELIT Zeroes 2008 PLC.

Sheila M Ruckley
MA LLB DLP (51)
executive director
investor relations

Sheila Ruckley read American history and Philosophy and brought up a young family before studying law and qualifying as a solicitor. She joined the Alliance Trusts in 1988 and was appointed secretary in 1989. She has been closely involved in the savings and investment business and held the position of compliance officer before taking responsibility for the introduction and development of the Alliance Pension Plan. In November 2000 she was appointed a director with responsibility for investor relations activities.

Andrew F Thomson
MA (58) *†
senior independent director
non-executive

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

Alan M W Young
MA LLB (54)
executive director
investment

After working at Buckmaster & Moore, London stockbrokers, Alan Young joined the Gartmore investment department in 1977 as an analyst and fund manager, becoming a director of their pension and investment trust management arms in 1983. He joined the Alliance Trusts in 1986 and became a director in 1992 with responsibility for the UK and European portfolios. In 1995 he became the director responsible for formulation of investment policy.

* member of audit committee

† member of remuneration committee

All the directors, executive and non-executive, are also directors of The Second Alliance Trust PLC and Alliance Trust Savings Limited

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, Andrew Thomson who is the senior independent director and William Berry, Bill Jack and Nelson Robertson. The executive directors are Gavin Suggett, chief executive, Sheila Ruckley, investor relations director, and Alan Young, investment director.

The Chairman plays an important role, along with the other non-executives, in bringing an independent and objective view to the activities of the Group. 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. Upon Andrew Thomson's retirement, William Berry will take on the role of senior independent director.

Ian Goddard succeeded Sheila Ruckley as Company Secretary in November 2000.

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, all the directors, executive and non-executive, have resolved to 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 Alliance Trust Savings (quarterly). 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.

The directors also meet informally on a regular basis to discuss current issues, usually with members of the management team.

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

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 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 27 in the section on accountability and audit.

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

The chairman of the remuneration committee is Andrew Thomson. The other members are William Berry, Bill Jack and Nelson Robertson. William Berry will succeed Andrew Thomson as chairman of this committee.

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 Alliance Trust Savings Limited.

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.

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. No performance related bonuses, share option or other incentive schemes are presently in force. The policy on executive director remuneration also applies to all employees.

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. Remuneration has not included separate performance related elements as these have not so far proved necessary to attract and retain suitable executives and staff.

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. Following a review of the structure and level of staff remuneration carried out last year, the Board is proposing to introduce an element of performance related remuneration over the next few years, in particular a tax advantaged All Employee Share Ownership Plan and a more selective performance bonus system for senior management.

fees paid to non-executive directors	group 2001 £	group 2000 £	company 2001 £	company 2000 £
William Berry	14,000	13,250	10,500	9,938
William H Jack	2,333	-	1,750	-
Bruce W M Johnston (Chairman)	28,000	26,500	21,000	19,875
W Nelson Robertson	14,000	13,250	10,500	9,938
Andrew F Thomson	14,000	13,250	10,500	9,938
Total	72,333	66,250	54,250	49,689

remuneration paid to executive directors (Group and Company)	salary 2001 £	salary 2000 £	taxable benefits* 2001 £	taxable benefits* 2000 £
Sheila M Ruckley	12,500†	-	92†	-
Gavin R Suggett (highest paid director)	134,375	129,875	787	686
Alan M W Young	111,250	107,625	4,699	4,027
Total	258,125	237,500	5,578	4,713

* Alan Young has the use of a company car. Each executive director has private medical insurance for him or herself, spouse and any children up to age 25.

† 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 17, 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 I 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, all entitlements from the pension scheme are extinguished. In their place, 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, have no value on leaving service, and carry no transfer value. The cost to the Company of these insured benefits for each executive director (% of remuneration) is Sheila Ruckley 4.3, Gavin Suggett 8.1 and Alan Young 4.9.

executive directors pensions	age at 31 january 2001	accumulated total accrued pension at 31 january 2000	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 2001
Sheila M Ruckley	51	£11,060	£122	£3,304	£14,486
Gavin R Suggett	56	£74,713	£822	£4,657	£80,192
Alan M W Young	54	£35,570	£391	£3,588	£39,549

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

Sheila Ruckley and Bill Jack were appointed directors on 29 November 2000. 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. No director is connected in any material way with any advisor providing professional advice or services to the Company.

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 2001.

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

All are acquisitions pursuant to standing instructions through plans provided by Alliance Trust Savings .

There have been no changes other than these in the interests of the directors between 31 January and 16 March 2001.

director	date of acquisition	beneficial/ non-beneficial	no. of stock units
Gavin Suggett	1 February	beneficial	20
Gavin Suggett	15 February	beneficial	37
Alan Young	15 February	beneficial	59
Gavin Suggett	28 February	non-beneficial	61
Gavin Suggett	14 March	beneficial	39
Alan Young	14 March	beneficial	62

directors' interests (stock units of 25p)	31 january 2001		1 february 2000 *or date of appointment	
	beneficial	non-beneficial	beneficial	non-beneficial
William Berry	1,218	8,887	756	51,089
William H Jack	1,000	-	1,000*	-
Bruce W M Johnston	2,043	15,186	402	15,186
W Nelson Robertson	1,400	1,000	1,000	1,000
Sheila M Ruckley	1,379	-	1,379*	-
Gavin R Suggett	1,129	10,098	677	8.992
Andrew F Thomson	11,078	152,166	10,600	152,166
Alan M W Young	2,221	-	1,941	-

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 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 such as those organised by ATS or by the Association of Investment Trust Companies.

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.

Sheila Ruckley's appointment as director responsible for investor relations is a confirmation of the Board's commitment to developing the Company's relations with its stockholders and potential stockholders.

notifications by substantial stockholders

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

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

Alliance Trust Savings Limited currently holds over 11% of the Company's ordinary stock on behalf of customers and as trustee of the Alliance Pension Plan. 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 financial statements of the Company and the Group for the year ended 31 January 2001 have been prepared on a going concern basis. The Company has substantial realisable assets and this basis continues to apply. 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

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

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

The internal auditor, 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 on an annual basis a formal review of significant business risks and considers the scope and effectiveness of the Company's system of internal control. 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 risks are being actively monitored.The Board confirms that procedures, which accord with published guidance for directors on compliance with the Combined Code, have been in place for the year under review and continue to be in place. These procedures ensure that, at both Board and management 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, as a result of these changes, 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.

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 any potential for increased returns. Past borrowings are now small and there are no other contractual commitments which are likely to lead to any conflict between short term liquidity requirements and long term policy.

The 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. An executive director is consulted whenever the proposal is to vote against the recommendations of the management of the company in which stock is held.

Where practical the same policy is adopted for overseas holdings.

data protection

The Company and ATS are both controllers as defined under the Data Protection Act 1998. The company receiving information 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 process it. 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. The Company does not, however, otherwise make this information available to third parties.

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

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 2001 the Company had no trade creditors. ATS, its principal operating subsidiary, had trade creditors of 6 (10) 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 119 (102) tonnes of carbon dioxide. This is the equivalent of running approximately 10, three bar electric fires for a year.

donations

The Company is a member of ProShare which promotes individual share ownership and which has charitable status. £6,494 (£6,250) 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, 19 March 2001

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 2001, made up to the same date. The Company and its subsidiaries comprise the Alliance Trust Group.

The accounting policy adopted for 2001 for recognition of overseas dividend income differs from that used in previous years and, where appropriate, the 2000 figures have been restated.*

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 reserves

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

6 pension costs

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

* *Following changes to the treatment of tax credits under UK generally accepted accounting standards, overseas dividend income is now shown net rather than inclusive of the underlying overseas tax recoverable as previously disclosed. In the year to 31 January 2001 this change reduces both overseas dividend income and taxation by £198,000 but does not affect the revenue return attributable to equity stockholders. The comparative figures have been similarly adjusted with reductions in overseas income and taxation of £317,000.*

consolidated statement of total return

for year ended 31 january 2001	notes	2001 revenue £000	2001 capital £000	2001 total £000	2000 revenue £000	2000 capital £000	2000 total £000
investment income	1						
UK dividends		22,727	–	22,727	23,989	–	23,989
UK scrip dividends		–	–	–	–	–	–
foreign income dividends		–	–	–	321	–	321
		22,727	–	22,727	24.310	–	24,310
UK interest		1,804	–	1,804	1,720	–	1,720
overseas dividends		11,925	–	11,925	12,021	–	12,021
overseas scrip dividends		94	–	94	109	–	109
overseas interest		97	–	97	16	–	16
mineral rights income		483	–	483	196	–	196
		37,130	–	37,130	38,372	–	38,372
other income							
deposit interest		6,045	–	6,045	4,874	–	4,874
savings and pension product charges		2,205	–	2,205	2,073	–	2,073
miscellaneous		374	–	374	415	–	415
		8,624	–	8,624	7,362	–	7,362
total income		45,754	–	45,754	45,734	–	45,734
expenses	2	(5,420)	–	(5,420)	(4,974)	–	(4,974)
realised gains on investments	7	–	147,249	147,249	–	100,618	100,618
(decrease)increase in unrealised appreciation	7	–	(61,652)	(61,652)	–	56,375	56,375
surplus on revaluation of office premises		–	28	28	–	–	–
foreign exchange gains(losses)		–	1,096	1,096	–	(983)	(983)
net return before interest payable and taxation		40,334	86,721	127,055	40,760	156,010	196,770
interest payable	3	(1,410)	–	(1,410)	(1,164)	–	(1,164)
return before taxation		38,924	86,721	125,645	39,596	156,010	195,606
taxation	4	(4,216)	–	(4,216)	(4,365)	–	(4,365)
return after taxation		34,708	86,721	121,429	35,231	156,010	191,241
minority interest – equity		(497)	(98)	(595)	(426)	258	(168)
		34,211	86,623	120,834	34,805	156,268	191,073
dividends on preference stock – non-equity	5	(97)	–	(97)	(97)	–	(97)
return attributable to equity stockholders		34,114	86,623	120,737	34,708	156,268	190,976
dividends on ordinary stock – equity	5	(33,516)	–	(33,516)	(32,508)	–	(32,508)
transfer to reserves		598	86,623	87,221	2,200	156,268	158,468

		earnings	capital	total	earnings	capital	total
return per ordinary stock unit	6	67.69p	171.87p	239.56p	68.87p	310.05p	378.92p

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

company statement of total return

	notes	2001 revenue £000	2001 capital £000	2001 total £000	2000 revenue £000	2000 capital £000	2000 total £000
investment income	1						
UK dividends		22,727	–	22,727	23,989	–	23,989
dividends from subsidiary		1,275	–	1,275	1,275	–	1,275
foreign income dividends		–	–	–	321	–	321
		24,002	–	24,002	25,585	–	25,585
UK interest		808	–	808	291	–	291
overseas dividends		11,925	–	11,925	12,021	–	12,021
overseas scrip dividends		94	–	94	109	–	109
overseas interest		97	–	97	16	–	16
mineral rights income		483	–	483	196	–	196
		37,409	–	37,409	38,218	–	38,218
other income							
deposit interest		2,906	–	2,906	2,772	–	2,772
miscellaneous		5	–	5	4	–	4
		2,911	–	2,911	2,776	–	2,776
total income		40,320	–	40,320	40,994	–	40,994
expenses	2	(2,856)	–	(2,856)	(2,502)	–	(2,502)
realised gains on investments	7	–	147,249	147,249	–	100,519	100,519
(decrease)increase in unrealised appreciation	7	–	(61,534)	(61,534)	–	56,736	56,736
surplus on revaluation of office premises		–	28	28	–	–	–
foreign exchange gains(losses)		–	1,096	1,096	–	(983)	(983)
net return before interest payable and taxation		37,464	86,839	124,303	38,492	156,272	194,764
interest payable	3	(76)	–	(76)	(80)	–	(80)
return before taxation		37,388	86,839	124,227	38,412	156,272	194,684
taxation	4	(3,393)	–	(3,393)	(3,611)	–	(3,611)
return after taxation		33,995	86,839	120,834	34,801	156,272	191,073
dividends on preference stock – non-equity	5	(97)	–	(97)	(97)	–	(97)
return attributable to equity stockholders		33,898	86,839	120,737	34,704	156,272	190,976
dividends on ordinary stock – equity	5	(33,516)	–	(33,516)	(32,508)	–	(32,508)
transfer to reserves		382	86,839	87,221	2,196	156,272	158,468

		earnings	capital	total	earnings	capital	total
return per ordinary stock unit	6	67.26p	172.30p	239.56p	68.86p	310.06p	378.92p

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 2001	notes	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
fixed assets	7				
office premises		650	622	650	622
investments		1,949,332	1,863,560	1,957,958	1.872,019
		1,949,982	1,864,182	1,958,608	1,872,641
current assets					
debtors	9	17,325	29,899	11,510	24,224
bank deposits		91,380	66,006	42,579	30,889
cash at bank and in hand		1,381	9.778	1,339	1,471
		110,086	105,683	55,428	56,584
creditors: amounts falling due within one year	10	(74,748)	(71,936)	(38,462)	(40,872)
net current assets		35,338	33,747	16,966	15,712
total assets less current liabilities		1,985,320	1,897,929	1,975,574	1,888,353
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		9,746	9,576	–	–
		11,394	11,224	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	996,395	848,050	995,096	846,751
capital reserve - unrealised	11	923,272	984,994	939,461	1,000,967
revenue reserve	11	39,459	38,861	24,569	24,187
total stockholders' funds		1,973,926	1,886,705	1,973,926	1,886,705
		1,985,320	1,897,929	1,975,574	1,888,353
total stockholders' funds are attributable to:					
equity stockholders	12	1,971,726	1,884,505	1,971,726	1,884,505
non equity stockholders	12	2,200	2,200	2,200	2.200
		1,973,926	1,886,705	1,973,926	1,886,705
net asset value per ordinary stock unit	6	£39.12	£37.39	£39.12	£37.39

The financial statements on pages 31 to 42 were approved by the Board on 19 March 2001 and were signed on its behalf by

Bruce W M Johnston
director

Gavin R Suggett
director

cash flow statements

of the group and of the company for the year ended 31 january 2001	notes	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
operating activities					
investment income received		37,436	39,786	37,201	38,336
deposit interest received		6,622	3,927	2,978	3,232
underwriting commission received		4	4	5	4
savings and pension products charges		2,205	2,073	–	–
miscellaneous income received		349	420	–	–
net (increase) in advances		–	(1,000)	–	–
net amounts received from depositors		4,341	6,311	–	–
expenses		(5,281)	(4,837)	(2,729)	(2,466)
net cash inflow from operating activities	13	45,676	46,684	37,455	39,106
service of finance					
interest paid		(1,410)	(1,164)	(76)	(80)
dividends paid on preference stocks		(97)	(97)	(97)	(97)
dividends paid to minority interests		(425)	(425)	–	–
net cash outflow from servicing of finance		(1,932)	(1,686)	(173)	(177)
taxation paid		(3,742)	(2,929)	(3,179)	(2,105)
investing activities					
purchase of investments		(309,710)	(278,607)	(307,430)	(277,704)
disposal of investments		319,105	211,133	317,305	202,907
net cash inflow(outflow) from investing activities		9,395	(67,474)	9,875	(74,797)
equity dividends paid		(33,516)	(32,508)	(33,516)	(32,508)
net cash inflow(outflow) before management of liquid resources and financing		15,881	(57,913)	10,462	(70,481)
management of liquid resources					
cash (placed on)uplifted from short term deposits	15	(24,278)	64,037	(10,594)	67,614
		(8,397)	6,124	(132)	(2,867)
financing					
capital subscribed by minority shareholder		–	2,500	–	–
loan from Alliance Trust (Finance) Limited		–	–	–	3,000
(decrease)increase in cash	14	(8,397)	8,624	(132)	133

notes to the financial statements

for the year ended 31 january 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
1 investment income				
listed UK	24,461	25,948	23,465	24,519
unlisted UK	70	82	1,345	1,357
listed overseas	12,036	12,146	12,036	12,146
unlisted overseas	563	196	563	196
	37,130	38,372	37,409	38,218
2 expenses				
directors' remuneration	336	308	318	292
staff salaries	2,129	1,752	1,045	849
social security costs	215	176	122	101
pension contributions	580	550	286	280
remuneration of auditor and associates – audit	25	25	15	15
– other services	2	21	–	2
other	2,133	2,142	1,070	963
	5,420	4,974	2,856	2,502

Details of directors' remuneration are given on pages 24 to 25. The Group employs 89 (77) full time and 18 (18) part time staff, excluding directors. Staff costs are shared with The Second Alliance Trust PLC. There are no bonus or share option schemes for directors. The management and administration expenses of the Company amounted to £2,856,000 (£2,502,000) representing 0.14% (0.13%) of total assets less current liabilities of £1,975,574,000 (£1,888,353,000).

During the year a payment of £1,000 was made by the Company and the Second Alliance Trust to Professor George A Stout, a former director, for his services in writing a short history of the organisation for the website.

Other services provided by the auditor were providing audit reports to the Financial Services Authority regarding Alliance Trust Savings Limited, and in connection with the reorganisation affecting Alliance Trust Savings Limited in April 1999.

for the year ended 31 january 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
3 interest payable - all charged to revenue				
on deposits and overdrafts repayable within 5 years not by instalments	1,336	1,090	2	6
on debentures repayable wholly or partly in more than 5 years	74	74	74	74
	1,410	1,164	76	80
4 taxation - all charged to revenue				
UK corporation tax at 30.0% (30.16%)	4,777	4,682	3,954	3,928
overseas taxation	1,728	1,653	1,728	1,653
recovery of French company tax (avoir fiscal)	(198)	(317)	(198)	(317)
prior year adjustment	(363)	–	(363)	–
	5,944	6,018	5,121	5,264
relief for overseas taxation	(1,728)	(1,653)	(1,728)	(1,653)
	4,216	4,365	3,393	3,611

for the year ended 31 january 2001	total capital 2001 £000	2000 £000	dividends 2001 £000	2000 £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.				
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 26.0p (24.0p) per stock unit			13,104	12,096
proposed final dividend of 40.5p (40.5p) per stock unit			20,412	20,412
	14,800	14,800	33,516	32,508

Provision has been made in these financial statements for the dividends on the Company's preference stocks, which will be payable on 1 May 2001. 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 2001	group 2001 £000	2000 £000	company 2001 £000	2000 £000
6 return and net asset value per ordinary stock unit				
earnings	34,114	34,708	33,898	34,704
capital	86,623	156,268	86,839	156,272
total return	120,737	190,976	120,737	190,976
equity stockholders' funds	1,971,726	1,884,505	1,971,726	1,884,505

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 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
7 fixed assets				
office premises freehold/heritable property				
opening valuation	622	622	622	622
surplus on revaluation*	28	–	28	–
	650	622	650	622
investments				
investments listed on a recognised investment exchange	1,942,310	1,859,913	1,921,698	1,839,642
unlisted investments	7,022	3,647	7,022	3,647
subsidiary companies (note 8)	–	–	29,238	28,730
	1,949,332	1,863,560	1,957,958	1,872,019

* *J & E Shepherd, Chartered Surveyors, valued the office premises at 31 January 2001 on the basis of the current open market value with vacant* possession to reflect existing use in accordance with the Statements of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors.
The historical cost of the office premises is £292,000 (£292,000).

	group investments £000	company investments £000	company subsidiary £000	company total £000
opening book cost	878,945	858,483	12,900	871,383
opening unrealised appreciation	984,615	984,806	15,830	1,000,636
opening valuation	1,863,560	1,843,289	28,730	1,872,019
movements in the year				
amortisation	(529)	–	–	–
purchases at cost	307,744	305,464	–	305,464
sales – *proceeds*	(307,040)	(305,240)	–	(305,240)
– realised gains on sales	147,249	147,249	–	147,249
(decrease)increase in unrealised appreciation	(61,652)	(62,042)	508	(61,534)
closing valuation	1,949,332	1,928,720	29,238	1,957,958
closing book cost	1,026,369	1,005,956	12,900	1,018,856
closing unrealised appreciation	922,963	922,764	16,338	939,102
closing valuation	1,949,332	1,928,720	29,238	1,957,958

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 £29,238,000 (£28,730,000) 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 below.

	ATS		ATF Group	
for the year ended 31 january 2001	2001 £000	2000 £000	2001 £000	2000 £000
government securities	10,250	10,068	10,165	10,395
money at call and short notice	48,800	43,423	802	1,254
loans to parent companies	–	–	16,000	16,000
debtors less creditors	–	–	46	201
	59,050	53,491	27,013	27,850
financed by:				
amounts due to depositors	47,159	40,638	–	–
creditors less debtors	118	2,205	–	–
	47,277	42,843	–	–
shareholders' funds	11,773	10,648	27,013	27,850
	59,050	53,491	27,013	27,850

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

notes to the financial statements

for the year ended 31 january 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
9 debtors				
sales for subsequent settlement	7,695	19,760	7,695	19,760
loan to The Second Alliance Trust PLC (Note 18)	4,000	4,000	–	–
taxation recoverable	1,106	1,786	1,106	1,786
prepayments and accrued income	3,830	4,277	2,704	2,663
other debtors	694	76	5	15
	17,325	29,899	11,510	24,224
10 creditors: amounts falling due within one year				
amounts due to depositors	46,399	39,003	–	–
purchase for subsequent settlement	4,976	7,037	4,976	7,037
UK corporation tax payable	1,225	1,431	691	1,157
loan from ATF (Note 18)	–	–	12,000	12,000
proposed dividends	20,461	20,461	20,461	20,461
other creditors	1,687	4,004	334	217
	74,748	71,936	38,462	40,872

for the year ended 31 january 2001	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	848,050	984,994	38,861	846,751	1,000,967	24,187
exchange differences	1,096	–	–	1,096	–	–
net gain on realisation of investments	147,249	–	–	147,249	–	–
decrease in unrealised appreciation	–	(61,652)	–	–	(61,534)	–
surplus on revaluation of office premises	–	28	–	–	28	–
minority interest	–	(98)	–	–	–	–
retained net revenue for the year	–	–	598	–	–	382
end of year	996,395	923,272	39,459	995,096	939,461	24,569

for the year ended 31 january 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
12 reconciliation of movements in stockholders' funds				
opening equity stockholders' funds	1,884,505	1,726,037	1,884,505	1,726,037
total recognised gains and losses	87,221	158,468	87,221	158,468
closing equity stockholders' funds	1,971,726	1,884,505	1,971,726	1,884,505
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 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
13 reconciliation of net revenue before interest and tax to net cash inflow from operating activities				
net revenue before interest payable and taxation	40,334	40,760	37,464	38,492
scrip dividends	(95)	(109)	(95)	(109)
amortisation – non-cash adjustment	529	577	–	–
increase(decrease) in accrued income	447	2	(41)	690
increase(decrease) in other creditors	(2,317)	1,399	117	(12)
movements in loans and advances	–	(1,000)	–	–
decrease(increase) in other debtors	(618)	53	10	45
increase in amounts due to depositors	7,396	5,002	–	–
net cash inflow from operating activities	45,676	46,684	37,455	39,106
14 reconciliation of net cash flow to movement in net funds				
increase(decrease) in cash in the year	(8,397)	8,624	(132)	133
cash placed(uplifted from) on short term deposits	24,278	(64,037)	10,594	(67,614)
loan advanced by ATF	–	–	–	(3,000)
foreign exchange gains(losses)	1,096	(983)	1,096	(983)
movement in net funds in year	16,977	(56,396)	11,558	(71,464)
net funds at start of year	74,136	130,532	18,712	90,176
net funds at end of year (Note 15)	91,113	74,136	30,270	18,712

15 analysis of change in net funds

group				
cash at bank and in hand	9,778	(8,397)	–	1,381
bank deposits	66,006	24,278	1,096	91,380
debenture stock	(1,648)	–	–	(1,648)
	74,136	15,881	1,096	91,113
company				
cash at bank and in hand	1,471	(132)	–	1,339
bank deposits	30,889	10,594	1,096	42,579
debenture stock	(1,648)	–	–	(1,648)
loan from ATF	(12,000)	–	–	(12,000)
	18,712	10,462	1,096	30,270

notes to the financial statements

for the year ended 31 january 2001	group 2001 £000	group 2000 £000	company 2001 £000	company 2000 £000
16 contingencies, guarantees and financial commitments				
Contingencies, guarantees and financial commitments of the Group and the Company at the year end, which have not been accrued, are as follows:				
guarantees to third parties of future lease rentals in respect of the former leasing business of ATF	17	44	–	–

17 pension scheme

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

The pension cost (inclusive of administration fees and the cost of death-in-service insurance) charged to the Group and paid during the year was £580,000 (£550,000).

The pension scheme funding rate is determined, at intervals not exceeding three years, on the recommendation of a qualified actuary. The latest actuarial valuation report is dated 6 September 2000 and relates to service by members up to 31 March 2000. The report was produced using the projected unit method of funding, and assumes that investment returns will exceed salary progression by 1.0% pa. This report showed assets valued on an actuarial basis at £6,951,000, a surplus of £250,000 over present value liabilities. Following the recommendation of the report, the trustees have adopted a funding rate of 26.4% (27.3%) of pensionable salaries as from 1 April 2000. This rate includes administration fees and death in service benefits.

18 related parties

The affairs of the Alliance Trust Group are managed in conjunction with those of the Second Alliance Trust Group. Although neither parent company is controlled by common stockholders, the composition of the Board of each company is currently the same and for the purposes of Financial Reporting Standard 8 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 the ATF Group, and reflects the respective sizes of the companies. During the year to 31 January 2001 The Second Alliance Trust PLC paid a contribution of £412,000 (£376,000).

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 2001, 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 £327,000 (£248,000) due to SAL.

19 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 2001. 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 £3,308,000, (£3,119,000) a discount to book value of the equivalent of 1.1p (1.5p) per ordinary stock unit.

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. 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 2001 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

19 March 2001

information for stockholders

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 your dividend, or which is available from the Company, and lodge it with our registrars.

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

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.

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 so that in effect their net income in respect of the dividend is unaffected by the April 1999 changes. How this works is shown in the illustration below.

2000/2001	**dividend £**	**tax recoverable (payable)**	**net income after tax**
PEP/ISA investor	80.00	8.89	88.89
non-tax payer	80.00	-	80.00
lower rate tax-payer	80.00	-	80.00
standard rate	80.00	-	80.00
higher rate taxpayer	80.00	(20.00)*	60.00

* This is calculated as 32.5% on the gross dividend of £88.89 - £28.89 less the tax credit of £8.89

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.

financial dividend and agm (year to 31 january 2001)	
ex-dividend date	11 April 2001
annual general meeting	27 April 2001
final dividend payment date	1 May 2001
interim dividend (year to 31 january 2002)	
announcement date	20 August 2001
ex-dividend date	19 September 2001
interim dividend payment date	12 October 2001

general enquiries

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

Meadow House
64 Reform Street
Dundee DD1 1TJ

Tel: 01382 306006 • Fax: 01382 225133
e-mail: contact@alliancetrusts.com

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

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

Tel: 01382 201900 • Fax: 01382 202250
e-mail: contact@alliancetrusts.com

Please note that investment instructions cannot be accepted by phone or e-mail.

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

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

registrars

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

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

Tel: 0870 702 0010 • Fax: 0131 442 4924

Our registrars now provide a facility to check your holdings and view other useful information about your Alliance Trust stock at www.computershare.com.

incorporation

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

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.

aitc investment trust forums

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

If you would like a ticket (free of charge) for any of these forums, please telephone the AITC on 020 8655 7809. Tickets are available on a first come, first served basis.

date	area	venue
25 April 2001	St Albans	Sopwell House Hotel and Country Club
16 May 2001	Edinburgh	Edinburgh International Conference Centre
13 June 2001	East Anglia	Newmarket Racecourse
4 July 2001	Bristol	Bristol Marriott
18 September 2001	Surrey	Epsom Downs Racecourse
10 October 2001	Coventry	to be announced
7 November 2001	Harrogate	The Old Swan

savings products

alliance trust savings limited (ATS)

In keeping with our self-managed structure our savings and investment products are provided and administered in house, using our own staff and systems. ATS, our banking and financial services subsidiary, carries out this activity which, with the exception of the Alliance CAT ISA, will be marketed as the Alliance Select range of products from April 2001.

alliance select philosophy

A holding in the Alliance Trust is the ideal core investment in anyone's investment portfolio and our products are designed so that this core investment can be purchased and held simply and economically. We require a minimum investment in the Alliance Trust or the Second Alliance Trust in each ATS product, so that every customer becomes a stockholder and has a direct interest in the success of the organisation as a whole. This minimum is only £50 in each product.

Part of the Alliance Select philosophy is that our investors should be able also to structure their own portfolios within each ATS product to achieve their own individual investment objectives round a stable core investment.

Thus, as well as the core investment in the Alliance Trust and/or Second Alliance Trust, ATS offers investors the choice of over 200 other investment trusts, 400 UK equities and a selection of corporate bonds, gilts, unit trusts and OEICs.

There are no set up or annual charges in the Alliance Select products. Charges are transaction based and the purchase and sale charges depend on the investment and the dealing priority you choose.

The most economical dealing costs are for purchases of the Alliance Trust and Second Alliance Trusts, where the charge is only £1, no matter how large or small the amount to be invested, plus the unavoidable 0.5% stamp duty reserve tax.

transaction based charging in a stakeholder and CAT environment.

The only ATS product which departs from the Select range charging structure and philosophy is the Alliance CAT ISA. This is the only ISA provided in the investment trust industry which meets the government's standards for Charges, Access and Terms (CAT). These standards require a single investment only and there is an annual charge which, under the standard, must not exceed 1% (inclusive of the 0.5% stamp duty on purchases). In fact the annual charge for the Alliance CAT ISA does not exceed 0.75%.

We are often asked why, given our reputation for low costs, we do not put all our products on a CAT or stakeholder charging basis, where the basic annual charges are also capped at 1%. However, the fact that a product meets the CAT standard or is registered as a stakeholder does not mean that it is necessarily less expensive than a product with a different charging structure.

There is a place for the CAT and stakeholder compliant product for those who prefer not to choose their own investments and manage their own portfolios. However, we firmly believe that investors should be able to choose and manage their own investments, and should have access to an unbundled transaction based charging structure.

Our experience is that what will now be called our Select range of products appeals to those who do want choice and do want flexibility in managing their own portfolios and are conscious of the need to control costs. The total charge may be less or more than a CAT standard or stakeholder product, depending on how active you are and how large your portfolio, but at least the choice is yours.

for product details please telephone us on **01382 306006**
or visit us at **www.alliancetrusts.com**

alliance select PEP

Of great importance for all core investment enthusiasts is that, from 6 April 2001, the whole of a PEP can be invested in the Alliance Trust and/or Second Alliance Trust. The "non-qualifying" rules which limited this investment to 25% of a general PEP portfolio are being repealed and the range of investments which may be held in a PEP will be the same as those for the ISA.

From the same date, too, the distinction between General and Single Company PEPs (SCPs) will disappear and with it all the restrictions which were associated with investments held in what were SCPs.

Recognising the advantages and cost savings of this new flexibility for its PEP investors, the Alliance Select PEP will be operated, from 6 April 2001 on a fully consolidated basis, with all investments previously segregated in General and SCPs merged into the investor's one PEP portfolio.

Transferring PEPs to ATS thus becomes even more attractive, especially for those locked into costly and/or inflexible, exposed or poorly performing PEPs.

alliance select ISA

The Alliance Select ISA is available for subscriptions up to the annual £7,000 limit and has similar tax advantages to the PEP. 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 on the cash component and the full Select choice of securities is available in the stocks and shares component.

The charging structure is the same as the Alliance Select PEP.

alliance CAT ISA

For investors seeking a simple core investment in the Alliance Trust only, the Alliance CAT ISA may well appeal.

alliance select pension

This self-invested personal pension (SIPP) is not a stakeholder pension, for the reasons previously discussed, but all the new rules which make tax advantaged pension provision available to children and non-earners apply to the Alliance Select Pension. For investors choosing to have a very simple "core investment" pension this provides an extremely cost-effective option. For those who recognise the need for flexibility, now or in the future, the Alliance Select Pension gives the opportunity to adapt and grow without costs rising automatically with the fund. The Alliance Select Pension is designed to be nurtured and to travel with you throughout life.

alliance select investment plan

There are no tax advantages to this product and, consequently, no maximum subscription limits and fewer restrictions. The Plan is a general purpose, flexible savings vehicle for your core investment and for a diversified portfolio chosen from the securities on the ATS list.

The Plan is very popular with those investing for themselves, their children and their grandchildren and many trusts use the Plan to hold their investment portfolios.

years	£100 per month	£1000 lump sum
10	£21,653	£3,317
7	£12,109	£1,865
5	£7,424	£1,652
3	£3,848	£1,244
1	£1,174	£1,052

Source: Alliance Trust Savings Limited. All figures to January 2001. *Figures assume net income is reinvested, no additional tax is payable on* dividends received and allow for all expenses of investing through the Alliance Investment Plan.