THE ALLIANCE TRUST PLC

SC 1731

REPORT & ACCOUNTS

YEAR ENDED 31 JANUARY 2003

contents

chairman's statement

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

The last year has been a stormy one for capital markets, ending at a time of great economic and geopolitical uncertainty. The valuation of our assets has declined for the second year running, this time by 28%, although by contrast we have been able to increase the dividend again. The 36 year run of consecutive increases is particularly welcome in these times of falling interest rates and generally reduced investment returns.

The reasons for the market turmoil combine genuine economic difficulty in economies and companies world-wide with a major change in the perception of equities as an investment. The bursting of the technology bubble at the start of 2000 started the process, which was accelerated by the events of 11 September 2001, various corporate scandals and, particularly in the last year, the unravelling of many financial structures engineered at a time when equity growth was taken for granted.

As an essentially equity fund, we have not been immune from the falls, but our stocks have generally outperformed their markets. Diversification has reduced exposure to specific risks in companies, industries or economies and we have remained ungeared with significant sums held in cash and bonds.

Over the longer term the resilience of our approach is likely to more than make up for the less volatile returns which might be expected over shorter periods. Indeed the last year has seen many investment companies fail, or change their financial structures, when the risks they had taken on began to crystallise.

The hardship and political fallout caused by these problems has spawned a plethora of investigations, consultation papers and proposals which cover many of the areas in which we operate: investment trusts, pensions and the distribution of savings products. It is to be hoped that common sense will prevail and that the root of many of the problems in the marketplace - the incentivised selling of long-term products on short-term criteria - which it has been our policy to avoid, will be tackled without damaging the strengths which companies such as our own have displayed for over a century.

One of these strengths is the ability to change with the times. We now do more of our own investment research, the savings side of the business is innovative and growing and we have made progress in improving communications between the Company and its stockholders.

None of this would be effective without dedicated staff, committed managers and a focussed board of directors. This year we have welcomed two new directors to the Board. Christopher Masters joins as a non-executive and brings us his insight and depth of management experience. David Deards, with his banking and wealth management experience, joins us as Finance Director. These appointments were predicated last year when we asked stockholders to authorise an increase in the size of the Board and are in anticipation of the retirement of Gavin Suggett in 2004. We are asking stockholders to approve these appointments at the AGM together with adjustments to Directors' fees as explained in the Directors' *Remuneration Report*.

Next year we hope to be able to report a better valuation, but we are very conscious of the many imponderables which lie in wait over the next 12 months. These seem to affect just about every form of long-term savings and investment and there has rarely been a more appropriate time to preach the merits of investing in a diversified trust.

Bruce W M Johnston

financial summary

performance years to 31 january

		year to 31 Jan 03	year to 31 Jan 02
income			
dividends	interim paid October	29.0p	28.0p
	final proposed 1 May 2003	*40.5p*	*40.5p*
	total	69.5p	68.5p
gross yield (dividend (1) ÷ closing stock price) (2)		3.6%	2.6%
total expense ratio (expenses ÷ year end net asset value) (2) (3)		0.31%	0.19%
capital			
net asset value per ordinary stock unit (at 31 January)		£23.85	£33.14
price per ordinary stock unit (at 31 January)		£21.28	£29.24
discount (at 31 January)		10.8%	11.6%

Note: 1 Total dividend (including tax credit).

2 The increase in yield and in the total expense ratio mainly reflects the fall in capital values over the year.

3 The total expense ratio before the additional pension contribution was 0.28%.

	1 year	10 years
returns		
dividend growth	1.5%	4.4%
capital growth - Alliance Trust net asset value	-28.0%	3.0%
capital growth - FTSE All-Share Index	-31.0%	2.4%
total return - on Alliance Trust net assets (4)	-25.9%	5.2%
total return - on Alliance Trust stock price (4)	-24.9%	5.5%
total return - on FTSE All-Share Index (4)	-28.8%	5.4%
annual rate of inflation (RPI)*	2.9%	2.6%

* Source: Thomson Financial Datastream

4 These returns include income and capital movements and are approximately equal to the annual compound movement in net assets/stock price/index added to the net yield on the portfolio/stock price/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
1993	901	28.8	23.0	45.70	45.00	17.79
1994	1,079	29.7	23.8	47.28	47.00	21.33
1995	955	32.7	27.1	53.79	50.00	18.85
1996	1,228	34.4	28.4	56.30	53.00	24.28
1997	1,359	34.9	29.5	58.61	55.50	26.88
1998	1,565	38.8	32.7	64.89	59.00	30.97
1999	1,730	40.1	33.2	65.95	62.50	34.25
2000	1,888	41.0*	34.7	68.86	64.50	37.39
2001	1,976	40.3	33.9	67.26	66.50	39.12
2002	1,674	45.0	37.7	74.80	68.50	33.14
2003	**1,206**	**43.6**	**36.1**	**71.63**	**69.50**	**23.85**

* From 2000, income excludes the associated tax credit.

outlook

Employing our own staff and retaining our ability to respond to change will be as vital in the future as they have been in the past

In this section we discuss the threats and opportunities which confront us in these particularly uncertain times.

investment companies

The Company has faced major uncertainties many times in its 115 year history, but it has been able to prosper with remarkably little change to the corporate structure on which it stands. Unfortunately, the good reputation of investment trusts has been damaged recently by the problems of some of the split capital sector and, although we are not involved in the scandals, we are bound to be affected by regulatory changes proposed. Proposals for greater disclosure of risks and exposures are sensible, but care needs to be taken where change could damage operational efficiency and investment flexibility. Employing our own staff and retaining our ability to respond to change will be as vital in the future as they have been in the past.

alliance return and inflation over 100 years

source: internal

our business

Our business can be considered as a combination of several elements. We devote much time and resource developing these areas to achieve better investment performance, a better savings service, and a larger stockholder base whose objectives are well aligned with those of the Company. Managing this requires many skills and we are continuing to build up a strong, dedicated team financed largely through revenue generated in Alliance Trust Savings. Nevertheless, the cost of managing the Company itself, expressed as a percentage of net assets, has risen. The expense ratio has increased, mainly because of our fixed cost base and the falling valuation, but is still about half of that of our principal competitors. This is particularly important in times of low inflation and low returns.

investment

The US economy remains the main engine of economic growth across the world and the US Dollar a vital element in global trade patterns. Although economic recovery in the US has been disappointing so far, this has been partly due to a chain of events which has disrupted investment spending: September 11th, the spate of corporate scandals and, most recently, the surge in geopolitical concerns and prospects of war have all increased levels of uncertainty and reduced business confidence. In the US a significant amount of fiscal and monetary stimuli has already been put into place and may be increased if necessary. These should provide a considerable boost to activity once the geopolitical situation is resolved and the oil price stabilises.

Arguably, an unavoidable cost of the stimuli delivered to date has been the expansion of both the trade and budget deficits in the US, and this has put some downward pressure on the Dollar. However, this may help US exporters win back some market share from their foreign competitors and, by easing inflationary pressures elsewhere, should encourage other central banks, particularly the European Central Bank, to ease monetary policy further, providing a much needed boost to global economic demand.

While geopolitical uncertainty prevails, risk aversion will remain high in both the corporate sector and amongst long-term portfolio investors. Although equity valuations have declined to more reasonable levels, there is a danger that markets could remain subdued until these issues are resolved. However, it is encouraging that there remain many companies with excellent management, strong cash flow and the potential for good profit growth, especially once a broader economic recovery is confirmed.

Our approach to investment is anchored to individual stock selection. We do not change our holdings frequently and have, in recent times, held to an average holding period of a little under 10 years. In order to maintain and develop our capacity for independent research and analysis of companies, we have built up our investment team which now numbers 18 active professionals with extensive investment experience. We are well placed to cover the wide range of opportunities which are likely to arise world-wide over the next few years.

savings

Through our subsidiary Alliance Trust Savings (ATS) the savings side of our business continues to invest in improving its service, particularly through Internet-based systems and by widening its distribution base.

Changes to the structure of the market for financial advice and products in the UK should be beneficial to ATS's operations and, given its innovative approach and low cost structure, it is in a strong position to deliver the products which will be required in future.

For PEPs and ISAs, the Government does not seem disposed to continue the repayment of dividend tax credits after April 2004, which will make holding equities less effective than bonds in these products from a tax viewpoint. However, ATS offers a very wide choice of investments, including bonds, and its PEPs and ISAs should remain cost and tax efficient for most investors, particularly those who might otherwise pay higher rate tax on investment returns. We are continuing to lobby the Government on the issue.

Pensions are also expected to change. The Government proposes to replace the eight current tax regimes with a simplified one, in which each individual will be restricted to a maximum lifetime fund value of about £1.4m. In most cases tax relief would be available on contributions up to 100% of earnings, individuals would be able to contribute concurrently to occupational and personal pension funds and the 25% tax free lump sum would remain. The new regime is scheduled to start in April 2004 and, if implemented as proposed, is likely to alter radically the way many individuals will conduct their financial affairs. It is too early to predict the full implications, but we believe it could be highly beneficial to ATS, whose Select Pension could be a blueprint for the new regime.

ATS ten year growth

source: internal

investor relations

We run a comprehensive communications programme to improve the external understanding of the Alliance Trusts and to keep us in touch with the concerns and requirements of stockholders. This involves seminars, visits and meetings with stockholders and related improvements in stockholder communications and PR. The dialogue generated has been immensely helpful in bringing us closer to our stockholders and customers and we expect this evolving programme to remain as a key component of our overall strategy. Details of the scheduled seminars for 2003 are given on page 47 and further information will be put on the web site - www.alliancetrusts.com.

results and performance

We anticipate being able to maintain our progressive dividend policy

dividend and earnings

Dividend growth continues to be an important element of the total returns we provide. Having increased the interim dividend by 1p we are recommending a final dividend of 40.5p, making a total annual dividend of 69.5p, an increase of 1.5% on last year. The Company has significant revenue reserves and, despite an uncertain economic environment and the possibility of lower dividend increases, or even dividend cuts, from the companies in which we invest, we anticipate being able to maintain our progressive dividend policy.

Earnings, out of which we pay dividends, were lower this year almost entirely due to the absence of a number of special, one-off, dividend receipts which we received last year. These special receipts masked the growth in the underlying income from our investments. This growth emanated from net dividend increases on our equity holdings, averaging about 3.5%, and the net effect of reinvesting some of our cash in higher yielding securities, but was offset by falling interest rates on our cash and adverse exchange rate movements. In particular, the income on our US Dollar denominated securities suffered from the 14% fall in the exchange rate over the year. At the year end, the net yield on our net assets, after all expenses and tax, was 2.8%.

The Company's expenses, of which 70% relate to staff, increased by 7.6% reflecting inflation and the continued development of our in house investment team. In addition, having reviewed the position of our staff pension fund, we decided to make an additional contribution this year in the light of changes taking place in pensions, particularly increased life expectancy. All these costs attract corporation tax relief at 30% and are expensed out of revenue. We do not write off these expenses against capital, to ensure that the Company's core asset base, from which future income growth and dividend paying capacity emanates, is not depleted.

dividend

source: internal

capital performance

The table at the foot of this page shows the returns on various assets and from various markets over the last year and over a ten year period. We do not follow a single benchmark as we have a policy of diversifying our investments over many areas and assets, but we do compare the performance for each part of our portfolio with the averages for those classes of assets. The last year shows a remarkable divergence in returns between equities, wherever listed, and debt instruments in the form of bonds and cash. This has influenced the 10 year cumulative figures to such an extent that the capital value of the UK FTSE All-Share Index has not kept pace with inflation. Our overall performance needs to be looked at in the light of these numbers.

We have outperformed the UK equity indices and most of our peer group. Our performance over the last year has inevitably been determined substantially by where our assets are invested. We had 5% of our assets in cash and bonds at the beginning of the year and 6% at the end with no gearing. Over 10 years the important driver has been the degree of our diversification overseas, since the UK market has fallen short of the all-important US market and even against Europe.

Over 10 years, on average, our stocks have barely kept up with the indices, mainly because of our low exposure to hi-tech stocks; but over the last year stock selection has added 1.8% to performance. This has come from strong out-performance of our oil and UK domestic portfolios where we hold a third of our assets, offset by some under-performance in our financial and healthcare portfolios where we hold a similar proportion. The latter two portfolios are more heavily weighted in the UK than the relevant world indices and the extra income which we receive as a result goes some way to redressing this under-performance on capital account.

capital performance - attribution analysis	**1 year**	**10 year**
movement in UK FTSE All-Share Index	-31.0%	26.2%
attributable to asset allocation	1.2%	8.0%
attributable to stock selection	1.8%	-0.2%
movement in net asset value	-28.0%	34.0%

Over the year our stock price fell by 27.2%, less than the fall in net asset value reflecting a further tightening of the discount. This we attribute to our relatively strong performance and cautious reputation in a market which has been dominated by bad news, a greater awareness perhaps of our attributes as a result of our investor relations programme, and to the demand for stock coming through Alliance Trust Savings.

comparative returns to 31 january 2003

capital performance - compound annual % return	**1 year**	**10 year**
Alliance Trust net assets	-28.0%	3.0%
Alliance Trust stock price	-27.2%	3.0%
FTSE All-Share Index †	-31.0%	2.4%
US Standard and Poor's 500 Index (£)†	-34.9%	5.8%
FTSE WI Europe (ex UK) (£)†	-30.3%	5.0%
Tokyo Topix Index(£)†	-18.9%	-5.0%
non-equity assets - compound income returns		
Gross redemption yield on UK gilts (before tax)* ◊	4.0%	8.1%
Cash (net interest; deposit > £25,000; < 90 days notice)** ◊	2.2%	4.0%
Retail Price Index	2.9%	2.6%

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

Past performance is not necessarily a guide to future performance.

◊ These asset classes are included in this comparitive table as they form components of the Company's portfolio from time to time. However, they are not comparable with an investment in the Company as the risks and returns associated with these assets are very different in nature.

results and performance

savings performance

The savings side of our business has two objectives: to provide its customers with ways to enhance the returns on their investments and to grow its customer base within the constraint that it should be financially self sufficient. Every customer is a stockholder in the Company or the Second Alliance Trust, and the intention is that through ATS an increasing number of investors will come to appreciate the benefits of a core holding in the Alliance Trusts.

The last year was one of the most difficult in the recent history of retail equity products, due to the deteriorating economic background, high profile scandals and falling stock markets. Net sales of unit trusts and OEICs fell by 11% in 2002 and the AITC reported a 33% fall in combined Investment Trust ISA and Savings Plan sales by its member companies. By contrast, ATS reported a 7% increase in net inflows to £136m, a 3% decline in the equivalent investment trust sales and a 13.5% increase in the net purchases of stock in the Alliance Trusts. ATS now has 25% of the investment trust ISA market although its penetration of the investment trust savings scheme market, which is heavily subsidised by management groups and trusts, is much lower. No industry figures are available for pensions.

Financially, ATS also had a good year. Operating income increased by 3.5% to £4.3m, expenses were virtually unchanged and profits before tax and the additional pension contribution increased by 13%. £673,000 was added to reserves which, together with the capital, is all invested in Gilts.

Net purchases of Alliance stock increased by 10.4% to £30.2m which, given the lower average purchase prices prevailing through the year, translated into a 17% increase in stock held through ATS which represented 14.7% of our capital at the year end.

savings products

Select Investment Plan This general purpose plan remained popular, particularly for regular savings, children and trusts, attracting 7% more investors and £17m of net investment.

Select PEP PEPs have been closed for new subscriptions for nearly 4 years, but ATS still attracts funds despite a natural progression of deaths and withdrawals. Net inflows increased by £10m, to £27m, helped by a strong flow of transfers from other managers, as investors consolidated plans, originally taken out elsewhere, with ATS.

Select ISA Over the year, ISA sales resulted in a 10% increase in the investor base, but, with the gradual increase in withdrawals as the product becomes more mature, net new investment declined by 1% to £54m.

Select Pension As the newest product in the range, this is the fastest growing with net inflows up 22%, at £36m, and investor numbers up 39%. This was the second year of the 'Stakeholder' tax rules which extended pensions to non-earners and allows partial concurrency in contributions to occupational and personal pensions. This has proved attractive with our investors, many of whom use it for starting a pension fund for their children or grandchildren. We are also seeing a considerable number of transfers from other providers, partly as a result of difficulties elsewhere and partly for the same reasons that we are receiving PEP transfers: ease, economy and transparency.

We see this product as having considerable potential. There is a trend away from opaque and expensive products and the long-term nature of pensions fits perfectly with our objectives and ability to deliver a high quality service at a reasonable cost. We are not generally recognised as a 'traditional' pension provider, but we are beginning to penetrate this market. During the year, we linked up with Witan and the City of London investment trusts in the provision of pension products and further alliances are being discussed.

ATS growth by product over the year to 31 january 2003	investors		investors' assets*	
	numbers	change	£m	change
Investment Plan	9,188	7%	100	-17%
PEP	19,101	-2%	538	-27%
ISA	16,071	10%	143	2%
Pension Plan	3,786	39%	76	23%
Total	**35,335 †**	**5%**	**857**	**-19%**

* These included £158m and £80m of stock in the Alliance Trust and the Second Alliance Trust respectively (valued at 31 January 2003)

† Some investors have more than one Plan.

investment background

Global overcapacity, resulting from recent over-investment and subdued demand, remains a problem for many industries

Our investment approach is primarily based on individual stock selection. However, we also monitor prevailing conditions in the underlying economies, business sectors and financial markets to which companies in which we invest are exposed. The following section describes the main events in these areas during our last financial year and outlines our investment position as at 31 January 2003. Our portfolio is then reviewed in detail on pages 13 to 20.

gold price, oil price and US dollar

source: Thomson Financial Datastream

economies

Last year was another difficult period for the world economy, influenced significantly by the US. At the start of our financial year, it had become apparent that an anticipated recovery in the US economy had been delayed by the events of September 11th 2001, but it was hoped that the loosening of both monetary and fiscal policy would prove effective in boosting growth. However, a series of US corporate and accounting scandals severely damaged business, consumer and investor confidence, further delaying economic recovery. Confidence has been damaged yet again, recently, by rising geopolitical tensions which have spread from the Middle East to Asia, pushing up gold and oil prices, whilst adding to the downward pressure on the Dollar.

In response to weak growth, US interest rates have been cut to a 50 year low, stimulating a surge of mortgage refinancing which has helped sustain US consumer spending. Although more general economic growth remains below trend, the outstanding flexibility and resilience of the US economy has been confirmed. A return to recession has been avoided despite the series of shocks that has been endured.

The UK economy continued to outperform many of its peers in 2002 as domestic demand remained robust, underpinned by the strong labour market, rising house prices and historically low interest rates. The performance of the manufacturing sector remained disappointing, however, as exports were hit by the combination of Sterling's relative strength and global over-capacity, causing the trade deficit to rise to its highest level on record. Meanwhile, domestic demand in Europe was disappointing once again, and at the same time the appreciation of the Euro, particularly against the Dollar, has limited the prospect of an export-led recovery. In Germany, where much needed structural reform remains elusive, sluggish economic growth pushed the government's budget deficit above the level deemed acceptable by the Maastricht Treaty, leading to further tensions in the Stability and Growth Pact. As long as governments in Europe focus on

investment background

reducing fiscal deficits, hopes for economic stimulus rest with monetary policy and the willingness of the European Central Bank to take a more flexible approach and reduce the risk of a deflationary spiral similar to that which has plagued Japan for many years. Demand within the European Union may be boosted, however, by the forthcoming expansion to include much of Eastern Europe, including the Czech Republic, Poland and Hungary.

Japan has been relying heavily on its export sector to provide economic growth while its domestic economy remains strangled by structural problems in its banking system. Elsewhere in Asia, however, recent export growth has been strong enough to boost local economies, and domestic consumption has generally risen. China, in particular, continues to benefit from membership of the World Trade Organisation and the recovery in Asia after the 1997 crisis. An increasing number of companies are moving production there in search of lower costs. In sharp contrast, countries in Latin America remained burdened by high levels of debt, weak domestic demand and political uncertainty.

US manufacturing capacity utilisation

source: Thomson Financial Datastream

companies

Global overcapacity, resulting from recent over-investment and subdued demand, remains a problem for many industries, reducing pricing power and limiting the source of profits growth to cost cutting. The chart on this page clearly illustrates the extent to which this has been a particular problem for the IT Hardware sector in the US, due to the excessive over-investment of the late 1990s. Capacity utilisation in this sector has fallen by nearly 30% from its peak, intensifying price pressures, and resulting in many job losses as companies have been forced to restructure. More generally, companies are choosing to retrench using available cash flow to pay down existing debt and to strengthen their balance sheets further. There is little sign of an improvement as confidence remains low due to geopolitical concerns, the slump in stock markets, a drying up of equity finance and corporate scandals uncovered last year. These disclosed many irregularities, not only in basic accounting practices, but also in the corporate structures and governance of several high profile companies. Overly optimistic pension assumptions and the value-destroying effects of dilutive options-based reward structures have also emerged. Moves to address many of these have been made quickly in the US, but the transitional process is still painful.

A remarkable feature of the recent economic slowdown has been the extent to which labour productivity has remained relatively high in the US, where cost cutting is well advanced. This is vital everywhere, however, if companies and industries are to compete against the headwind of fierce price competition which continues to emanate from Asia.

equity markets

The chart on the right illustrates the disappointing year experienced by all the major equity markets. Not only have share prices now fallen for three consecutive years, creating one of the longest bear markets in history, but many stock market indices have almost halved from their peak levels. Markets fell heavily last summer as corporate scandals came to light, raising concerns over company profitability and adding to doubts about the sustainability of the economic recovery. More recently, geopolitical concerns have returned to the fore, increasing risk aversion among investors in general, pushing US bond yields down to a 40 year low, but raising the attractiveness of dividends and secure income growth for equity investors.

Forced selling of equities by insurance companies, and a widespread rebalancing of pension funds towards bonds, hit the UK market particularly hard, culminating in it declining 31% over our financial year to 31 January. Similar falls were experienced elsewhere. Adjusted for the strength of the pound against the US Dollar, the US market fell by 35% and in Europe the index fall reached 30% after adjusting for the appreciation of the Euro. Falls were closer to 20% in Japan in sterling terms. At the sectoral level, falls in oil and basic resources were confined to 22%, but the technology sector remained out of favour, with the FT World technology index declining by nearly 50% over the 12 months.

equity markets - sterling adjusted

Thomson Financial Datastream

how the assets are managed

GLOBAL

GEOGRAPHICAL

source: internal

asset distribution

The pie chart shows the distribution of our portfolio, with more than 50% now managed on a 'global sector' basis. Over the last year our holdings of cash and fixed interest rose from 5% to 6%, despite investing a net £8m in equities during the year.

On a geographic basis, we reduced our exposure to the US, Europe and Japan and added a net £26m to our UK holdings, mainly at times of particular weakness when prices were depressed. We also increased our exposure to Asia by a net £29m, encouraged by the progress we have seen in China, in particular, and by the prospects for increased consumer activity in the region as a whole.

On a sector basis, we invested a net £19m in resources and basic industries, focusing mostly on the oil and gas sector, where income is relatively secure despite being constrained by the weaker US Dollar. We added a net £4m to our technology holdings, encouraged by more realistic valuations and by the strong cash positions of some companies, which are allowing them to respond to the pressure to pay dividends for the first time. These purchases were largely financed by net sales of over £7m in the pharmaceutical and healthcare sector, where we felt that some valuations were excessive early in the year, and by sales of our holdings of telecom service companies, particularly in the US.

classification of investments

equities (including convertibles*)	UK %	Europe %	North America %	Japan %	Rest of World %	Total 2003 %	Total 2002 %
oil, chemicals & resources	9.7	0.9	1.5	0.1	0.8	13.0	11.5
construction & building materials	1.7	0.3	0.0	0.1	0.0	2.1	1.6
utilities	2.0	0.5	1.0	0.0	0.8	4.3	2.9
resources & basic industries total	**13.4**	**1.7**	**2.5**	**0.2**	**1.6**	**19.4**	**16.0**
electronics & engineering	0.7	0.3	1.7	2.2	0.1	5.0	2.2
general industrial	0.3	0.0	0.7	0.5	0.8	2.3	5.1
technology	0.2	0.7	3.2	0.2	0.1	4.4	6.0
capital goods total	**1.2**	**1.0**	**5.6**	**2.9**	**1.0**	**11.7**	**13.3**
beverages, food & household products	3.7	0.6	0.8	0.2	0.6	5.9	5.1
health	0.7	0.4	2.7	0.0	0.0	3.8	3.8
pharmaceuticals	3.7	1.8	2.4	0.4	0.1	8.4	9.7
tobacco	0.4	0.0	0.3	0.0	0.2	0.9	0.7
consumer goods & products total	**8.5**	**2.8**	**6.2**	**0.6**	**0.9**	**19.0**	**19.3**
retail	2.4	0.1	2.7	0.3	0.1	5.6	6.7
leisure, entertainment & hotels	1.2	0.1	0.0	0.0	0.2	1.5	1.3
media	2.2	0.7	0.4	0.1	0.3	3.7	3.5
transport	0.8	0.0	0.2	0.0	0.2	1.2	0.4
support services	1.8	0.2	0.4	0.2	0.3	2.9	4.7
telecommunications services	3.1	0.3	1.0	0.1	0.4	4.9	6.1
services total	**11.5**	**1.4**	**4.7**	**0.7**	**1.5**	**19.8**	**22.7**
banks	8.2	1.7	1.7	0.0	1.3	12.9	13.4
insurance	1.7	1.0	1.7	0.0	0.0	4.4	5.1
investment companies	2.0	0.0	0.0	0.1	0.3	2.4	2.0
real estate	0.9	0.0	0.2	0.0	0.2	1.3	1.3
speciality & other finance	2.4	0.0	0.0	0.1	0.2	2.7	1.8
financials total	**15.2**	**2.7**	**3.6**	**0.2**	**2.0**	**23.7**	**23.6**
total equities	**49.8**	**9.6**	**22.6**	**4.6**	**7.0**	**93.6**	**94.9**
fixed interest	2.8	0.0	0.0	0.0	0.0	2.8	2.1
total investments	**52.6**	**9.6**	**22.6**	**4.6**	**7.0**	**96.4**	**97.0**
other net assets	0.3	2.9	0.4	0.0	0.0	3.6	3.0
total assets less current liabilities							
2003 £1,206m	**52.9**	**12.5**	**23.0**	**4.6**	**7.0**	**100.0**	
2002 £1,674m	51.2	12.1	27.0	4.9	4.8		100.0

* Convertibles represent 2.4% (2.5%)

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

investment changes (£m)	valuation 31 january 2002*	purchases	sales	depreciation	valuation 31 january 2003
resources and basic industries	266	31	(11)	(50)	236
capital goods	224	29	(25)	(87)	141
consumer goods & products	322	11	(17)	(87)	229
services	383	55	(67)	(131)	240
financials	429	22	(20)	(115)	316
total	**1,624**	**148**	**(140)**	**(470)**	**1,162**

* *following reclassifications after 31 January 2002.*

portfolio review

The classification table on the opposite page gives a sector and geographical view of the portfolio. It allows comparisons against the same period last year. The table underneath it helps to identify changes as a result of stock price movements and active repositioning by our investment managers.

Our top holdings list has been expanded to 30. This helps illustrate the diversity of companies within the portfolio, many of which have global operations.

In the following pages we list all stocks within each sector with a value greater than £1.75m. In total the stocks listed represent 86% of the portfolio by value and 46% by number.

During the year, our exposure to resource and utility companies with solid yields was increased, as was fixed interest, helping to underpin income. We added to technology companies which hold large net cash positions, and are starting to see some of that cash redistributed in the form of dividends. Sizeable reductions occurred in the telecommunications and retail sectors as we saw prospects deteriorate there. Geographically, our actions were biased towards increasing UK and Asia over the US, Europe and Japan, where we have been net sellers.

investment companies

Our investment trust and fund holdings are held mainly to gain exposure to markets or investment sectors which we feel are attractive and offer additional diversification, but which we consider would be less efficient for us to access directly.

The investments listed represent 93% by value of the 21 such investments in our total portfolio. The year end valuation of all investment companies was £29.1m representing 2.4% of the total portfolio.

top thirty holdings

company	value £m	% of assets*
Shell Transport & Trading	45.5	3.8
GlaxoSmithKline	40.5	3.4
BP	38.2	3.2
Royal Bank of Scotland	36.7	3.0
Vodafone	27.0	2.2
HBOS	20.6	1.7
Johnson & Johnson	20.0	1.7
Wal-Mart	14.8	1.2
Barclays	13.4	1.1
Reckitt Benckiser	12.7	1.1
Unilever	12.5	1.0
Abbott Laboratories	12.5	1.0
Diageo	12.5	1.0
HSBC	11.5	1.0
Emap	11.2	0.9
Marsh & McLennan	11.0	0.9
Persimmon	10.9	0.9
Rio Tinto	10.8	0.9
Slough Estates	10.6	0.9
Exxon Mobil	10.4	0.9
Lloyds TSB	10.4	0.9
Aviva	10.3	0.9
Microsoft	10.2	0.8
John Wood Group	9.7	0.8
BT Group	9.0	0.7
Standard Chartered	8.8	0.7
Merck	8.7	0.7
Canon	8.6	0.7
BHP Billiton	8.5	0.7
Aventis	7.5	0.6

* Calculated as % of total assets less current liabilities. This list excludes Alliance Trust (Finance) and Alliance Trust Savings, which total £28.8m.

source: John Wood Group

investment companies	value £m
Candover Investments	5.1
Standard Life European Private Equity	4.6
Schroder Ventures International	3.0
UK Balanced Property Trust	2.9
Aberforth Smaller Companies	2.7
Merrill Lynch World Mining Trust	1.6
F&C Latin America	1.5
Korea Europe Fund	1.3
Throgmorton Trust	1.3
3i Group	1.0
Falcon Investment Trust	0.7
Electra Active Management	0.6
Edinburgh Dragon Trust	0.6
Martin Currie Pacific	0.5

portfolio review

resources & basic industries

source: BHP Billiton

oil, chemicals & resources		£m
Shell Transport & Trading	UK	45.5
BP	UK	38.2
Rio Tinto	UK	10.8
Exxon Mobil	USA	10.4
John Wood Group	UK	9.7
BHP Billiton	UK	8.5
Total Fina	France	6.2
Air Liquide	France	3.7
Schlumberger	USA	2.2
British Vita	UK	2.2
Shin-Etsu Chemical	Japan	1.8
RPM International	USA	1.8

oil, chemicals and resources

Lacklustre growth in the developed economies affected demand in all of these industries, only partly offset by increasing demand from the continued industrialisation of China.

Cuts in production by OPEC meant that the oil price remained within the cartel's target range of $22 - $28 per barrel for much of the year. However, prices moved above $30 at the end of the year due to disruption in supply from the national strike in Venezuela, together with concerns about potential war with Iraq.

Mining particularly benefited from the pace of industrial development in China, with demand for many basic resources showing double-digit growth. China now consumes more copper and steel than the US. Miners of gold also prospered, as the precious metal regained its appeal as an investment in uncertain times. Its price rose 30% over the year to $368 per ounce.

We made net additions to these sectors. In oil, we added to Shell Transport & Trading, which has a proven business model resilient under differing oil price scenarios, while we reduced BP, which in the event failed to meet challenging targets for production growth. The increasing attractions of natural gas as a cleaner, more efficient, fuel prompted us to build holdings in Burlington Resources and EnCana in North America, and PTT E&P and CNOOC in Asia. We benefited particularly from our long-term holding in John Wood Group, as the company successfully achieved a stock market listing. In mining, a position was initiated in the Australian gold producer Newcrest Mining, while we raised our holding in BHP Billiton, which has benefited from higher sales of iron ore into China to satisfy the growing steel industry there. This was partly funded by selling out of Anglo American and WMC. In chemicals, we increased Johnson Matthey but sold Syngenta.

utilities

Our positioning in this industry is based on gaining exposure to areas where regulation is favourable, by avoiding so-called "growth utilities" and by favouring regions showing genuine growth in demand.

The UK water regulatory outlook is encouraging and we added to Kelda, and also to National Grid, where the integration with Lattice appears to be progressing as planned. Elsewhere in Europe, we added to Suez, which has begun to focus on integration and restructuring, and to Autostrade, the Italian road toll operator, which is now subject to a bid.

In the US market, the "growth utilities", which typically maintain high levels of debt and large energy trading businesses, fared badly. However, our exposure is through local distribution companies, which benefited from the turmoil and contributed positive total returns.

We increased our exposure to Chinese utilities which are experiencing strong demand, including electric companies Beijing Datang and Huaneng Power, and also added to Hong Kong Electric, attracted by its high dividend yield.

construction & building materials

The environment for construction is challenging, with activity constrained by government budgets and by private sector companies reducing their capital expenditure. However, the UK house building sector has seen rapidly rising prices, underpinned by low interest rates and strong consumer demand. We do not believe such extreme growth to be sustainable, but underlying demand, coupled with accessible financing, should continue to support prices. Persimmon has a solid track record and nationwide presence, and remains our core housebuilder. During the year, we added to Crest Nicholson, a refocused house builder with a bias to the South and the Midlands.

Across Europe, building and construction was mixed, with continued weakness in Germany in particular. The French company Lafarge is our core European building materials holding, with an attractive geographic balance between emerging and developed markets. In the UK, we added to Aggregate Industries, Wolseley and Marshalls. The collective merits of these companies are based on their being well managed with resilient end markets and sensible growth profiles.

utilities		**£m**
Scottish & Southern	UK	5.9
Kelda Group	UK	5.2
National Grid Transco	UK	4.8
Consolidated Edison	USA	4.6
Scottish Power	UK	4.0
United Utilities	UK	3.7
Constellation Energy	USA	2.9
Huaneng Power	China	2.8
Suez	France	2.6
Autostrade	Italy	2.5
Australian Gas Light Company	Australia	2.3
Hawaiian Electric	USA	2.2
WPS Resources	USA	2.1
Hong Kong Electric	Hong Kong	2.1

construction & building materials		**£m**
Persimmon	UK	10.9
Wolseley	UK	3.8
Lafarge	France	3.6
Aggregate Industries	UK	3.2

source: Scottish & Southern Electricity

portfolio review

capital goods

source: Sage

general industrial		£m
Pentair	USA	4.7
BAE Systems	UK	3.6
Hutchison Whampoa	Hong Kong	2.9
Honda Motor	Japan	2.7

electronics and engineering		£m
Canon	Japan	8.6
General Electric	USA	6.8
Keyence	Japan	4.3
Illinois Tool Works	USA	4.1
Grainger	USA	4.0
Hoya	Japan	3.3
Spirax-Sarco Engineering	UK	3.0
Sandvik	Sweden	2.8
Renishaw	UK	2.8
Sony	Japan	2.1
Kidde	UK	2.0
Mabuchi Motor	Japan	1.9

technology		£m
Microsoft	USA	10.2
First Data	USA	6.7
Intel	USA	4.7
Cisco Systems	USA	4.2
Nokia	Finland	3.6
SAP AG	Germany	2.7
Dell	USA	2.3
Oracle	USA	1.9
Motorola	USA	1.9
Sage	UK	1.9
Texas Instruments	USA	1.8

general industrial

Some manufacturing stocks have shown relative strength in anticipation of recovery from the cyclical downturn. However, companies reliant on acquisitions to produce earnings growth remain pressured by concerns about accounting. In the US, we disposed of the conglomerate Tyco owing to uncertainty over its break-up plans, now aborted.

Despite fierce market conditions, Japanese auto companies increased their global market share, and record profits confirmed their resilience. We acquired new holdings in Japanese auto component companies FCC, Showa and Keihin at attractive valuations, and increased our Asia-Pacific automobile exposure through Hyundai Motor and Denway Motors.

electronics and engineering

The global operating environment for engineering proved extremely difficult. We sold Xaar and Senior Engineering, and concerns about conditions in certain end markets led us to reduce our position in Heidelberger Druckmaschinen, the German printing machine manufacturer. We further reduced our exposure to General Electric, and sold Japanese companies heavily exposed to capital investment, including Sumitomo Electric, Omron, Amano and Daifuku.

Many well-run companies with good industrial positions now offer yields attractive enough to help support share prices until a cyclical improvement occurs. We increased our holdings in Sandvik, Kidde and Bodycote and bought Worthington Industries, a US steel processor at the value-added end of the steel production industry with an excellent record of earning respectable margins.

technology

With business investment subdued, conditions for technology companies remain challenging. However, leading companies are using strong market positions to enhance cash flows and bolster balance sheets. The recent decision by Microsoft to pay its first dividend may lead to the improved allocation of surplus capital in the interest of shareholder value over the longer term.

Demand conditions are unlikely to improve in the near future, but this is an industry with a strong history of innovation, which encourages us to maintain a reasonable exposure. We favour companies with sound business principles and where demand for their products looks set to grow over the long run. Reflecting this, we added to positions in Microsoft and Sage.

beverages, foods & household products

A more difficult outlook for consumers in the West limits companies' ability to raise prices. The outlook for the sector is nevertheless positive, with strong companies, sensible strategies and disciplined management teams showing they are capable of delivering value to shareholders.

In many companies to which we are exposed, visible demand improvements and margin gains are helping to sustain investor confidence. Where concerns have arisen, such as with Geest's salad sales and Altria's market share losses, share prices have suffered severely, but they are supported by attractive yields.

Corporate activity surfaced with a recommended cash offer for BRL Hardy, the Australian wine company. Unilever's focus on areas offering potential demand growth was enhanced by making several small disposals of underperforming brands, while Reckitt Benckiser refused to overpay for acquisitions and may now reinitiate dividend increases.

pharmaceuticals & healthcare

Worries about challenges over patents and the declining number of new drug approvals weighed against pharmaceutical companies' share prices. Recent news has been more encouraging, with the successful legal defence of some patents and the appointment of a new head of the US Food and Drug Administration. The initiative to speed up the review of new drug applications by the FDA is helpful. Major drug patent expirations are starting to dissipate, helping to eliminate a concern which has dogged the industry. Medicare reform in the US is also now firmly back on the agenda, with President Bush proposing wider prescription coverage.

As demand for healthcare grows, due to ageing societies and the increasing incidence of western diseases, both insurance and government buyers of healthcare are trying to constrain expenditure. The most cost-effective way of treating illness is to use drugs and the latest medical devices, which reduce hospital times and costs. Innovative devices are seeing very strong growth rates and to this end we increased our investment in Gyrus, which makes instruments to improve tissue management. We also added a new holding, Alcon, the world leader in eye care products. Overall, however, we cut our exposure through partial sales of Merck and Johnson & Johnson.

consumer goods and products

beverages, foods & household products		**£m**
Reckitt Benckiser	UK	12.7
Unilever	UK	12.5
Diageo	UK	12.5
Nestlé	Switzerland	6.6
Pepsico	USA	6.0
British American Tobacco	UK	4.6
Altria	USA	4.2
BRL Hardy	Australia	3.1
Scottish & Newcastle	UK	2.8
Fosters	Australia	2.6
Allied Domecq	UK	2.3
Kraft Foods	USA	1.9
Kao	Japan	1.9
Geest	UK	1.8

pharmaceuticals & healthcare		**£m**
GlaxoSmithKline	UK	40.5
Johnson & Johnson	USA	20.0
Abbott Laboratories	USA	12.5
Merck	USA	8.7
Aventis	France	7.5
Bristol-Myers Squibb	USA	7.2
Novartis	Switzerland	6.7
UCB	Belgium	5.4
Takeda Chemical	Japan	5.2
Amersham	UK	4.7
Unitedhealth	USA	3.2
Gyrus	UK	3.0
Cardinal Health	USA	2.8
Altana AG	Germany	2.7
Celltech	UK	2.5
Fresenius	Germany	2.1
Steris	USA	2.1
Alcon	USA	1.8

source: Unilever

portfolio review

services

source: New Look

retail		£m
Wal-Mart	USA	14.8
Tesco	UK	7.2
Home Depot	USA	6.6
GUS	UK	6.4
Sysco	USA	4.3
Sainsbury	UK	4.2
Walgreen	USA	3.1
Kingfisher	UK	3.0
Marks & Spencer	UK	2.7
New Look	UK	2.0
Debenhams	UK	1.8

leisure, entertainment & hotels		£m
Six Continents	UK	4.2
Hilton	UK	3.8
Wolverhampton & Dudley	UK	3.0
Greene King	UK	2.0

media		£m
Emap	UK	11.2
Gannett	USA	4.9
Reed Elsevier	UK	4.8
Pearson	UK	3.9
VNU	Netherlands	3.1
Carlton	UK	2.5
Arnoldo Mondadori Editore	Italy	2.4
Singapore Press	Singapore	2.3
Mediaset	Italy	1.8

retail

UK consumption growth has slowed, but, if unemployment and interest rates stay low, an outright reduction in consumer expenditure may be avoided. Discounting and trading down to cheaper products are major industry themes globally. US consumers continue to demand value and falling Japanese incomes inhibit demand. Wm Morrison's bid for Safeway triggered interest from five other parties which may result in major changes to UK food retailing. GUS bought Homebase and Kingfisher took over Castorama to become a pure DIY group. We sold Findel in the UK and Uni in Japan, while Tesco, Ahold, Wal-Mart, C&S and Walgreen were reduced. In the UK, new holdings in Next and New Look were initiated and we started to rebuild our Home Depot holding in the US.

leisure, entertainment & hotels

It has been a sluggish year for the leisure sector. Weak corporate and international travel inhibited recovery in hotel demand, although brand presence, cost cutting and exposure to some geographical pockets of strength have been positive factors. Corporate activity was confined to NH Hoteles of Spain expanding from its domestic base and a proposed demerger of hotel and pub businesses by Six Continents. Gaming remained resilient and, with evidence of Asian consumer strength, this led to the purchase of Genting, a Malaysian casino and hotel operator. Slower high street spending in the UK hit town centre pubs, but there has been steady growth in community pubs, helping Wolverhampton & Dudley and our new holding in Greene King to produce strong operational performances.

media

This economically sensitive sector saw global advertising expenditure decline again last year. Any improvement in expenditure this year is expected to be modest, but growth in 2004 should be boosted by the US general election and the Summer Olympics. In the UK, corporate activity may be stimulated by the implementation of the Communications Bill's far-reaching reforms on cross-industry ownership. In the meantime, Granada and Carlton have agreed to merge and await clearance from the regulator. We sold our holdings in AOL Time Warner and Vivendi Universal in light of increasingly constrained balance sheets and the strategic challenges facing them. A holding has been initiated in BSkyB, the dominant UK pay TV broadcaster.

transport

Security threats, less trading activity, and continued UK rail disruption made the environment difficult for most transport companies, but we saw some interesting opportunities and added to our position in BAA, the airport operator, as this provides exposure to the air travel sector's long-term growth. We are not directly exposed to any airlines, having sold easyJet when it changed strategic direction by acquiring GO. We built a holding in Associated British Ports, the UK's leading provider of port facilities and related services, which has a strong operating track record. Our other main holding, Forth Ports, continued to trade well in its traditional activities as well as its land developments.

support services

With governments and companies searching for cost savings via outsourcing, many of our holdings experienced some growth, but the cyclical downturn also caused some significant share price falls. In this difficult environment, several holdings were sold, including Waste Management, Chubb, Deutsche Post and Bell System 24. Electrocomponents was further reduced. Pockets of growth in demand do still exist, and new positions were established in CDW Computer Centers and packager Pactiv, both in the US. Holdings were also started in Drake Beam Morin, a Japanese employment agency, and ports operator China Merchants Holdings.

telecommunications services

The telecommunications markets were mixed. Relative to reduced expectations, mobile companies experienced stronger demand for their services. However, the UK regulator imposed stricter than expected tariff reductions, and another competitor arrives in 2003. For these reasons, we reduced our position in MM02. In the US, pricing problems and accounting improprieties at WorldCom further depressed sentiment. Fixed-line operators continue to face threats to their profitability, and we lightened our holdings in the Regional Bell companies.

Looking ahead, industry consolidation would be welcome, especially in the mobile sector, but regulatory complexities and a lack of technology standards make it difficult to predict when this may occur. We remain confident in the sector's long-term prospects, as new consumer technologies are introduced and balance sheets repaired, but patience is required.

transport		**£m**
BAA	UK	4.0
United Parcel Service	USA	1.9
Forth Ports	UK	1.8

support services		**£m**
Compass	UK	6.7
Electrocomponents	UK	4.5
Hays	UK	3.5
Brambles Industries	Australia	3.4
Premier Farnell	UK	3.1
Securitas	Sweden	3.0
Secom	Japan	2.0
Pactiv	USA	1.9
CDW Computer Centers	USA	1.8
Serco	UK	1.8

telecommunications services		**£m**
Vodafone	UK	27.0
BT Group	UK	9.0
Verizon Communications	USA	5.9
SBC Communications	USA	4.2
Telefonica	Spain	3.5
Telefonos De Mexico	Mexico	2.1

source: BAA

portfolio review

financials

source: UniCredito Italiano

banks		£m
Royal Bank of Scotland	UK	36.7
HBOS	UK	20.6
Barclays	UK	13.4
HSBC	UK/Hong Kong	11.5
Lloyds TSB	UK	10.4
Standard Chartered	UK	8.8
Wells Fargo	USA	4.3
TCF Financial	USA	4.3
Commonwealth Bank of Australia	Australia	3.8
BNP Paribas	France	3.8
Bank of America	USA	3.5
ABN Amro	Netherlands	3.5
UniCredito	Italy	3.2
Northern Trust	USA	2.8
Société Générale	France	2.5
UBS	Switzerland	2.4
Bank One	USA	2.1
Bradford & Bingley	UK	1.9
Comerica	USA	1.8

insurance		£m
Marsh & McLennan	USA	11.0
Aviva	UK	10.3
American International Group	USA	6.0
CNP Assurances	France	5.4
Prudential	UK	5.0
Legal & General	UK	4.6
Protective Life	USA	2.3

other financials		£m
Slough Estates	UK	10.6
UK Balanced Property Trust	UK	2.9
Cousins Properties	USA	2.5
Cheung Kong	Hong Kong	1.9

preference stocks		£m
HBOS 9.25%	UK	6.8
National Westminster 9%	UK	6.4
Abbey National 10.375%	UK	5.0
Commercial Union 8.375%	UK	3.3
General Accident 8.8750%	UK	2.9
HBOS 9.75%	UK	2.8
Standard Chartered 7.375%	UK	2.5

banks

Economic uncertainty makes credit quality remain a key issue. Exposures have generally been well managed thus far and widespread systemic issues seem unlikely, due to the growing use of loan syndication, securitisation and credit derivatives. Revenue growth, although constrained by weaker loan demand and depressed margins, has been mitigated by strong cost control. In the UK, personal sector debt levels have escalated with annual house price increases surpassing 25%, although affordability is manageable at present interest rate levels. Bancassurers' dividends have been affected by capital injections into their life assurance subsidiaries. The German banks' structural problems have been highlighted by anaemic economic growth and in Japan the financial system is probably insolvent. We retain only one Japanese holding, Credit Saison, a credit card company. US retail banking profits are growing strongly, although corporate credit quality is still deteriorating. Valuations are becoming more attractive and the sector is well capitalised with strong bad debt reserves. Our portfolio continues to be positioned defensively. We see good value in selective high yielding stocks, but not exclusively. We strengthened our holdings in HSBC, Lloyds TSB, Northern Trust, BNP Paribas, Unicredito Italiano and some Asian holdings, but sold Abbey National, BNL, Credit Lyonnais and Suruga Bank and reduced Bank One, Bank of America and TCF Financial.

insurance

Weaker equity markets and rising corporate bond defaults pressurised the solvency of insurers, resulting in downgrades by the credit rating agencies. As a consequence, insurers raised capital, cut dividends and bonus rates, and curtailed their new business levels. They also diversified further out of equities into bonds and property. In the UK, Legal & General's rights issue raised £786m and Aviva cut its dividend by 40%. Companies are in a stronger position going forward but regulation is becoming more demanding, with onerous enquiries into long term savings, endowment misselling and with profit bonds. However, the long-term outlook is supported by the need for increased retirement saving by individuals. With some attractive yields emerging, we added to Legal & General, but reduced Aegon and sold Zurich Financial Services. The non-life sector continued to benefit from robust premium increases which are forecast to continue in the medium-term.

how the company works

structure of the company

constitution

The Alliance Trust is an investment company incorporated under the Companies Acts whose constitution is set out in its Memorandum and Articles of Association. It is an Inland Revenue approved investment trust, which enables it to realise its investments free from taxation on capital gains. Acceptance of investment trust status by the Inland Revenue is retrospective, and has been confirmed in respect of the financial year to 31 January 2002. The Company has subsequently conducted its affairs to enable it to continue to seek approval.

management

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

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

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

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

alliance trust savings

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

stockholders

At 31 January 2003 the Company had 26,646 stockholders on its register of members. These include many individuals, trusts, charities, pension funds and insurance companies. The register also includes an increasing number of nominee holdings which are used by professional advisers and custodians to simplify administration of clients' assets. One of these is the nominee holding operated by ATS which, at the same date, held 14.7% of the Alliance Trust ordinary stock for 27,061 investors.

board of directors

non-executive directors

from left Bruce Johnston
William Berry
Bill Jack
Lesley Knox
Christopher Masters

Bruce W M Johnston (Chairman) CA (64)

Joined the board 1991; appointed Chairman 1996

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

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

William Berry MA LLB WS (63)

Joined the board 1994; Senior Independent Director, Chairman of the remuneration committee, member of the audit committee

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

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

William H Jack (58)

Joined the board 2000; Chairman of the audit committee, member of the remuneration committee

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

Other directorships include The Second Alliance Trust PLC and Skipton Group Holdings.

Lesley M S Knox (49)

Joined the board 2001; member of the audit and remuneration committees

Lesley Knox qualified as a lawyer and worked in the UK and USA advising companies on a range of commercial matters. She then worked as a corporate finance adviser first with Kleinwort Benson where she became a group director in 1996 and was then a founder director of British Linen Advisers. She was also Head of Institutional Asset Management at Kleinwort Benson Investment Management which provided investment services to clients world wide.

Other directorships include The Second Alliance Trust PLC, Glenmorangie PLC, Hays PLC, HMV Group PLC, and MFI Furniture Group PLC.

Christopher Masters CBE FRSE (55)

Joined the board 2002; member of the audit and remuneration committees

Christopher Masters was educated at King's College, London, and Leeds University, where he took his doctorate in Chemistry. He had a distinguished careeer in industry, working for Shell Research BV in the Netherlands and then Shell Chemicals UK Ltd. He joined Christian Salvesen as business development manager in 1979 and in 1982 became director of planning for their US operation. He was Chief Executive from 1989 to 1997. In September 1997, he was appointed Executive Chairman of Aggreko PLC, a post he held until January 2002. Dr Masters chairs the Scottish Higher Education Funding Council and the Festival City Theatres Trust.

Other directorships include The Second Alliance Trust PLC, British Assets Trust PLC and John Wood Group PLC.

executive directors

from left Gavin Suggett
Alan Young
Sheila Ruckley
David Deards

Gavin R Suggett MA MSc FCA (58)

Joined the Company 1973; appointed to the board 1987; appointed Chief Executive 1995

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

Alan M W Young MA LLB (56)

Joined the Company 1986; appointed to the board 1992

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

Sheila M Ruckley MA LLB DLP (53)

Joined the Company 1988; appointed to the board 2000

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

David A Deards BA ACA (43)

Joined the board 2003

David Deards read zoology at Oxford and qualified as a chartered accountant with Arthur Young (now Ernst & Young) before joining Ansbacher & Co where he gained considerable experience in the Corporate Finance and Banking Divisions, becoming a director in 1995. More recently he was responsible for product development.

The executive directors are also directors of the Company's subsidiaries and the Second Alliance Trust PLC and its subsidiary.
The non-executive directors are also directors of Alliance Trust Savings Limited. Directors' ages are shown as at 18 March 2003.

directors

directors and officers

The Board consists of five independent non-executive directors and four executive directors. The non-executives are Bruce Johnston who is the Chairman of the Board, William Berry who is the senior independent director, Bill Jack, Lesley Knox and Christopher Masters. The executive directors are Gavin Suggett, chief executive, David Deards, finance director, 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.

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. The Articles of Association require that directors retire by rotation but may stand for re-election. In addition, the Board has resolved that all directors should submit themselves in turn for re-election by stockholders at least every three years.

Nelson Robertson retired on 26 April 2002, having served as a non-executive director for 6 years. Christopher Masters was appointed a director on 15 November 2002 and David Deards on 1 January 2003. The other directors served throughout the year.

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

meetings of directors

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

directors' remuneration

The Directors' Remuneration Report, which includes details of all directors' fees, is set out on pages 28-30.

directors' interests

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 director in the ordinary stock at 15 March 2003. Acquisition of stock between 31 January and 15 March 2003 has been pursuant to standing instructions through plans provided by ATS.

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

directors' interests (stock units of 25p)	1 february 2002 *or date of appointment		31 january 2003		acquired between 31 january & 15 march 2003	
	beneficial	non-beneficial	beneficial	non-beneficial	beneficial	non-beneficial
William Berry	1,700	8,919	2,212	500	52	–
David A Deards	990*	–	1,039	–	–	–
William H Jack	1,000	–	1,000	–	–	–
Bruce W M Johnston	2,083	15,186	2,134	15,186	–	–
Lesley M S Knox	276	–	511	–	11	–
Christopher Masters	494*	–	494	–	–	–
Sheila M Ruckley	1,432	–	1,587	–	12	–
Gavin R Suggett	1,551	10,759	2,052	9,841	69	–
Alan M W Young	2,484	–	2,630	–	12	–

how the company works

board and committees

board matters and delegation

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

committees of the board

Details of the audit committee and its responsibilities are given on page 26 in the section on accountability and audit.

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

The current members of the remuneration committee are William Berry, Bill Jack, Lesley Knox and Christopher Masters. William Berry is the Chairman.

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 executive directors (Gavin Suggett, Sheila Ruckley, Alan Young and, since his appointment in January 2003, David Deards) and Neil Anderson, Colin Beveridge and Kevin Dann. Neil Anderson is the central services manager responsible for the accounting function, IT systems and other central resources. Colin Beveridge is chief investment officer and Kevin Dann is the managing director of ATS.

relations with stockholders

communications with stockholders

The Company encourages communication with stockholders on matters of mutual concern and interest. All registered stockholders receive the annual report and accounts and the interim statement each year. These are also sent to stockholders who hold their stock through nominees and have requested such information from the Company. Our website, www.alliancetrusts.com, which for regulatory reasons is operated by ATS, is updated daily for stock price and net asset value information, monthly for investment position and performance and otherwise contains much information about the Company for reference.

The Annual General Meeting is held in Dundee to which a warm welcome is extended to all owners of Alliance Trust stock, however held. Throughout the year the management meets stockholders, institutional investors and financial advisers in Dundee and elsewhere, and at its investor seminars for private investors which are held in various locations in the UK.

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.

notification by substantial stockholders

As at 15 March 2003, the Company had been notified of the following interests:

	Ordinary stock units
Alliance Trust Savings Limited*	7,530,583 (14.9%)
DC Thomson & Co Ltd	3,241,503 (6.43%)
The Standard Life Assurance Company	1,739,553 (3.45%)
Legal & General Investment Management Company	1,518,366 (3.01%)

* This stock is held by Alliance Trust Savings in PEPs, ISAs and Investment Plans for its customers and as trustee of the Select Pension. Prior to general meetings of the Company, ATS offers its customers the opportunity to instruct how stock in the Company held in their plans is voted, and only votes on instructions received.

policy statements

voting

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

data protection

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

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

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

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. Accordingly, the supplier is always aware of the terms of payment and payment is made in accordance with these terms.

At 31 January 2003 the Company had no trade creditors. ATS, its principal operating subsidiary, had trade creditors of 13 (7) days' purchases.

environment

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

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 120 (118) tonnes of carbon dioxide. This is the equivalent of operating 10.7 (10.5) 3 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 (£6,494) was subscribed during the year as a membership fee. No political or charitable donations have been made and it is the Company's policy not to do so.

how the company works

accountability and audit

financial reporting

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

directors' responsibility for the accounts

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

The Company and the Group have, in the opinion of the directors, adequate resources to continue operation as a going concern for the foreseeable future, and the financial statements of the Company and the Group for the year ended 31 January 2003 have been prepared on that basis. The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in their preparation and that applicable accounting standards have been followed.

audit committee and auditors

William Berry, Bill Jack, Lesley Knox and, since his appointment in November 2002, Christopher Masters form the audit committee. Nelson Robertson was a member until April 2002. Bill Jack is the Chairman. The committee operates under specific terms of reference and meets at least three times a year, including prior to the publication of the Group's interim and final results.

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

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

internal control and risk management

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

The Board carries out an annual review of significant business risks and considers the scope and effectiveness of the Company's system of internal control. The Company's risk control procedures seek to identify both financial and non-financial risks which the businesses face in their markets and operations. The review takes into account the nature and extent of risks inherent in the Company's activities, including any changes identified during the course of the year, the extent and frequency of reporting to, and matters discussed by, the Board and its committees during the year, including those issues identified in reports received from the audit committee. In addition to this annual review, the Board keeps risk issues under scrutiny during the year and seeks to satisfy itself that awareness of risk is embedded into the Group's operations and that risks identified are being actively monitored.

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

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

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

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

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

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

investment risk and financial instruments

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

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

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

compliance with the code of best practice

The section "How the Company Works", together with the Directors' Remuneration Report on pages 28-30, 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 stated above, throughout the period of this report the Company has complied with the provisions of the Combined Code. The two areas of non-compliance are first that the Board has not appointed a nominations committee (explained at page 24), and secondly, separate performance-related elements do not form a substantial part of the total remuneration package of executive directors (explained on page 29).

Ian Goddard

By order of the Board
Ian Goddard, Secretary

Legislation requiring the Company to submit a Directors' Remuneration Report to stockholders for consideration at each Annual General Meeting is now in effect and this, our first such Report, will be submitted to the Annual General Meeting in April as an ordinary resolution. The vote on the Report is advisory in nature and, accordingly, will not affect the remuneration of the directors for the year under review. Details of the meeting and how it will be conducted are given in the Notice of Meeting.

framework

Non-executives. The total annual fees paid to directors must not exceed the maximum amount approved by stockholders in accordance with the provisions of the Company's Articles of Association. Within this figure, the remuneration of the non-executive directors is determined annually by the Board on the recommendation of the Chairman after taking advice from independent external consultants, who review the fee payments of non-executive directors in similar organisations. Non-executive directors do not have service contracts, but instead have letters of appointment and are appointed by the Board (subject to retirement by rotation and re-appointment by stockholders) for an initial period of three years with a maximum normally of three further periods of three years. The Chairman is expected to serve for a minimum of five years excluding any previous period as a director. All the non-executive directors also serve on the Board of the Company's subsidiary, Alliance Trust Savings Limited, and are required to be approved by the Financial Services Authority.

Remuneration Committee. The remuneration of executive directors is determined annually by the Remuneration Committee of the Board which consists of William Berry (Chairman), William H Jack, Lesley M S Knox and, since his appointment, Christopher Masters. Nelson Robertson was a member of the Committee up until his retirement in April 2002.

Advice. Watson Wyatt LLP, independent actuaries and consultants, have been appointed by the Board and the Remuneration Committee to advise, annually, on issues of comparability relating to non-executive and executive directors respectively. Watson Wyatt are also employed on an ad hoc basis to advise the Company on pension and remuneration issues which affect all staff, including the directors.

Executive Contracts. Executive directors' appointments are subject to stockholders' approval (without any maximum term) but, in each case, are subject to a service contract. These contracts are terminable on one year's notice by the Company. The contracts include no express provision for compensation on earlier termination. No such compensation has been paid during the year. Should an early termination situation arise the Remuneration Committee is required to take into account the individual's duty to mitigate any loss of earnings, before itself making any recommendation to the Board regarding the compensation, if any, which should be paid. All executive directors must retire at age 60.

Alignment of Interest. All directors are required to own at least 200 ordinary stock units in the Company and details of current holdings are given on page 23. The Board intends to continue its policy of selecting only executive directors who align themselves unambiguously with the interests of stockholders and, accordingly, for the time being, they see no need to devise additional incentives to do so.

fees paid to non-executive directors	group 2003 £	group 2002 £	company 2003 £	company 2002 £
William Berry	15,250	14,938	11,500	11,250
William H Jack	15,250	14,938	11,500	11,250
Bruce W M Johnston (Chairman)	30,000	29,500	22,500	22,125
Lesley M S Knox (appointed June 2001)*	15,250	9,574	11,500	7,219
Christopher Masters (appointed November 2002)	3,219	-	2,428	-
W Nelson Robertson (retired April 2002)	3,643	14,938	2,747	11,250
Andrew F Thomson (retired April 2001)	-	3,383	-	2,538
Total	**82,612**	**87,271**	**62,175**	**65,632**

* Until December 2002 fees in respect of Mrs Knox's services were paid to British Linen Advisers. From January 2003 the fees are paid to her personally. British Linen Advisers did not provide services to any group Company.

remuneration

General Policy. The Company recognises the principles laid down in the Combined Code on Corporate Governance. To fulfil its long-term objectives, the Company needs to attract individuals of the highest integrity and ability and to create an enduring and constructive relationship. The remuneration packages offered therefore recognise the importance of the job to the Company and the individual's potential to add value as well as the rate for the individual in the wider market.

Performance and Incentives. The Directors' Remuneration Report legislation requires each company to compare its performance with a "broad equity market index" in the form of a graph. The graph opposite compares the total return on the Company's ordinary stock with the FTSE All-Share Index. It must be emphasised that this is not a benchmark against which the Board measures the Company's performance nor the basis by which a director's performance is measured. It has been chosen simply because it is well known to the Company's stockholders, most of whom are in the UK. The Company's assets, which at any one time are not always fully invested in equities, are also substantially invested overseas, and will not necessarily perform in line with this index. In addition, the return on the ordinary stock is partly determined by supply and demand in the stock market and may not equate to the return achieved by the Company on its assets.

total stockholder return

source: internal/Datastream

The Combined Code on Corporate Governance recommends that performance related elements should form a significant proportion of the total remuneration package of executive directors and give these directors "keen incentives" to perform at the highest level. In view of the already close alignment between the interests of executive directors and of stockholders, the Board's present view is that the benefits of introducing a bonus or option incentive scheme would be outweighed by potential disadvantages. Consequently it does not currently comply with this recommendation except to the extent that the salary paid to each executive director itself already reflects the individual's long-term performance which is taken into account at each salary review.

remuneration received by executive directors (Group & Company)

	salary 2003 £	taxable benefits 2003 £	share incentive plan £	total 2003 £	total 2002 £
David A Deards (appointed 1 January 2003)	8,125	44	-	8,169	-
Sheila M Ruckley	83,750	756	801	85,307	82,576
Gavin R Suggett (highest paid director)	148,750	756	801	150,307	145,701
Alan M W Young	121,875	756	801	123,432	120,622
Total	**362,500**	**2,312**	**2,403**	**367,215**	**348,899**

Each executive director has private medical insurance for him or herself, spouse and any children under 25.

Each executive director has life insurance cover and each executive director, other than David Deards, has disability insurance maintained by the Group. These are insured benefits which have no value on leaving service.

The dates of executive directors' service contracts are: David Deards 22 November 2002, Sheila Ruckley 31 January 2001, Gavin Suggett 6 November 1987 and Alan Young 6 November 1987.

executive directors' *pensions*	accumulated total accrued pension per annum		transfer values			inflation adjusted increase in year	
	31 January 2002 £	31 January 2003 £	31 January 2002 £	changes £	31 January 2003 £	accrued pension £	transfer value £
Sheila M Ruckley	18,168	20,123	225,649	-5,898	219,751	1,646	17,977
Gavin R Suggett	89,264	95,168	1,313,420	310,194	1,623,614	4,386	74,836
Alan M W Young	45,136	49,420	598,583	95,744	694,327	3,516	49,399

The transfer values of the accrued pensions and the transfer values of the inflation adjusted increases in the accrued pensions in the period have been calculated by the actuary of the scheme in accordance with actuarial guidance note GN11. The changes in the transfer values between 31 January 2002 and 31 January 2003 are significantly influenced by the assumptions underlying their calculation and market conditions.

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

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

David Deards, appointed on 1 January 2003, becomes eligible to join the pension scheme after 6 months' service.

Non-executive Directors. Details of the fees paid during the last two years are shown in table on page 28. At the 2003 AGM, stockholders are being asked to increase the maximum available from £95,000 (approved by stockholders in 1999) to £120,000 pa and, if this increase is agreed, the proposal is to pay the Chairman £36,000 and each non-executive £18,000 for their services to the Group (a total of £108,000 for the year ending 31 January 2004). These figures, taken together with fees to be paid by the Second Alliance, have been compared with the Watson Wyatt survey of non-executive's remuneration in FTSE 250 and financial sector companies. Travel expenses are paid, but no extra fees are paid for attendance at committee meetings, or for other services to the Company.

Executive Directors. Executive directors are employed on a full time basis and, in view of the Company's location and the long-term nature of its objective, the remuneration packages have been designed to strengthen the alignment of interests between the individual and the Company and to avoid unnecessary short-term conflict. The package essentially consists of a salary, and, once eligible, a non-contributory defined benefit pension entitlement and a number of death in service and disability/health benefits. Executive Directors, once eligible, may join the all-employee Share Incentive Plan under which shares to the value of £3,000 pa may be earned should certain Group targets be met. No bonuses are paid, no options given and there are no long-term incentive plans except to the extent that salaries are determined on a basis of merit, responsibility and achievement. Details of the remuneration paid in the last two years and of pension entitlements are given in tables on page 29 and on this page. The remuneration package, including remuneration paid by the Second Alliance, is compared with the Watson Wyatt survey of similar positions in the financial sector. In general, remuneration approximates to the median survey figure save that, unlike most companies in the financial sector, the Company does not pay bonuses to executive directors. This policy will be kept under review, but no change is expected that will affect the current executive directors during the year to 31 January 2004.

Audit. The tables on pages 28, 29 and 30, together with the footnotes relating to them, are audited by the Company's auditor whose report is on page 43.

Ian Goddard

By order of the Board
Ian Goddard, Secretary
Dundee, 17 March 2003

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 2003, made up to the same date. The Company and its subsidiaries comprise the Alliance Trust Group.

2 valuation of fixed assets

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

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

3 income

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

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

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

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

4 expenses and interest

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

5 taxation

Provision is made for deferred taxation on all timing differences except as otherwise stated by FRS 19. Deferred tax is calculated at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

6 reserves

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

7 pension costs

The pension scheme is a defined benefit scheme and is open to all qualifying employees who have completed 6 months service. Contributions are charged against revenue. They are calculated by reference to actuarial valuations carried out for the trustees at intervals of not more than three years. They represent a proper charge to cover the accruing liabilities on a continuing basis.

consolidated statement of total return

for years ended 31 january	notes	2003 revenue £000	2003 capital £000	2003 total £000	2002 revenue £000	2002 capital £000	2002 total £000
investment income	1						
UK dividends		26,046	–	26,046	26,845	–	26,845
UK interest		1,815	–	1,815	1,727	–	1,727
overseas dividends		12,648	–	12,648	12,601	–	12,601
overseas scrip dividends		74	–	74	–	–	–
mineral rights income		515	–	515	781	–	781
		41,098	–	41,098	41,954	–	41,954
other income							
deposit interest		5,087	–	5,087	5,861	–	5,861
savings and pension product charges		1,974	–	1,974	1,970	–	1,970
miscellaneous		167	–	167	132	–	132
		7,228	–	*7,228*	*7,963*	–	*7,963*
total income		48,326	–	48,326	49,917	–	49,917
operating expenses		(6,381)	–	(6,381)	(6,142)	–	(6,142)
additional pension contribution		(641)	–	(641)	–	–	–
total expenses	2	(7,022)	–	(7,022)	(6,142)	–	(6,142)
realised (losses)gains on investments	7	–	(22,006)	(22,006)	–	22,559	22,559
decrease in unrealised appreciation	7	–	(446,912)	(446,912)	–	(325,726)	(325,726)
foreign exchange gains(losses)		–	235	235	–	(1,399)	(1,399)
net return before interest payable and taxation		41,304	(468,683)	(427,379)	43,775	(304,566)	(260,791)
interest payable	3	(1,120)	–	(1,120)	(1,428)	–	(1,428)
return before taxation		40,184	(468,683)	(428,499)	42,347	(304,566)	(262,219)
taxation	4	(4,104)	–	(4,104)	(4,419)	–	(4,419)
return after taxation		36,080	(468,683)	(432,603)	37,928	(304,566)	(266,638)
minority interest – equity		(289)	(41)	(330)	(352)	4	(348)
		35,791	(468,724)	(432,933)	37,576	(304,562)	(266,986)
dividends on preference stock – non-equity	5	(97)	–	(97)	(97)	–	(97)
return attributable to equity stockholders		35,694	(468,724)	(433,030)	37,479	(304,562)	(267,083)
dividends on ordinary stock – equity	5	(35,028)	–	(35,028)	(34,524)	–	(34,524)
transfer to reserves		666	(468,724)	(468,058)	2,955	(304,562)	(301,607)
		earnings	capital	total	earnings	capital	total
return per ordinary stock unit	6	70.82p	(930.01p)	(859.19p)	74.36p	(604.29p)	(529.93p)

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

company statement of total return

	notes	2003 revenue £000	2003 capital £000	2003 total £000	2002 revenue £000	2002 capital £000	2002 total £000
investment income	1						
UK dividends		26,046	–	26,046	26,845	–	26,845
dividends from subsidiary		1,275	–	1,275	1,275	–	1,275
		27,321	–	27,321	28,120	–	28,120
UK interest		802	–	802	690	–	690
overseas dividends		12,648	–	12,648	12,601	–	12,601
overseas scrip dividends		74	–	74	–	–	–
mineral rights income		515	–	515	781	–	781
		41,360	–	41,360	42,192	–	42,192
other income							
deposit interest		2,245	–	2,245	2,754	–	2,754
miscellaneous		10	–	10	5	–	5
		2,255	–	2,255	2,759	–	2,759
total income		43,615	–	43,615	44,951	–	44,951
operating expenses		(3,398)	–	(3,398)	(3,158)	–	(3,158)
additional pension contribution		(328)	–	(328)	–	–	–
total expenses	2	(3,726)	–	(3,726)	(3,158)	–	(3,158)
realised (losses)gains on investments	7	–	(22,006)	(22,006)	–	22,559	22,559
decrease in unrealised appreciation	7	–	(447,360)	(447,360)	–	(325,942)	(325,942)
foreign exchange gains(losses)		–	235	235	–	(1,399)	(1,399)
net return before interest payable and taxation		39,889	(469,131)	(429,242)	41,793	(304,782)	(262,989)
interest payable	3	(84)	–	(84)	(115)	–	(115)
return before taxation		39,805	(469,131)	(429,326)	41,678	(304,782)	(263,104)
taxation	4	(3,607)	–	(3,607)	(3,882)	–	(3,882)
return after taxation		36,198	(469,131)	(432,933)	37,796	(304,782)	(266,986)
dividends on preference stock – non-equity	5	(97)	–	(97)	(97)	–	(97)
return attributable to equity stockholders		36,101	(469,131)	(433,030)	37,699	(304,782)	(267,083)
dividends on ordinary stock – equity	5	(35,028)	–	(35,028)	(34,524)	–	(34,524)
transfer to reserves		1,073	(469,131)	(468,058)	3,175	(304,782)	(301,607)

		earnings	capital	total	earnings	capital	total
return per ordinary stock unit	6	71.63p	(930.82p)	(859.19p)	74.80p	(604.73p)	(529.93p)

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	notes	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
fixed assets	7				
office premises		650	650	650	650
investments		1,155,412	1,614,344	1,162,289	1,623,734
		1,156,062	1,614,994	1,162,939	1,624,384
current assets					
debtors	9	10,095	11,781	4,570	5,506
bank deposits		136,914	137,524	73,907	80,163
cash at bank and in hand		3,169	3,969	503	2,394
		150,178	153,274	78,980	88,063
creditors: amounts falling due within one year	10	(90,757)	(84,632)	(36,010)	(38,480)
net current assets		59,421	68,642	42,970	49,583
total assets less current liabilities		1,215,483	1,683,636	1,205,909	1,673,967
creditors: amount falling due after more than one year					
$4\frac{1}{2}$% debenture stock 1956 or after					
- repayable at the Company's option only		1,648	1,648	1,648	1,648
minority interest - equity		9,574	9,669	–	–
		11,222	11,317	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	995,784	1,017,555	994,485	1,016,256
capital reserve - unrealised	11	150,597	597,550	166,159	613,519
revenue reserve	11	43,080	42,414	28,817	27,744
total stockholders' funds		1,204,261	1,672,319	1,204,261	1,672,319
		1,215,483	1,683,636	1,205,909	1,673,967
total stockholders' funds are attributable to:					
equity stockholders	12	1,202,061	1,670,119	1,202,061	1,670,119
non equity stockholders	12	2,200	2,200	2,200	2,200
		1,204,261	1,672,319	1,204,261	1,672,319
net asset value per ordinary stock unit	6	£23.85	£33.14	£23.85	£33.14

The financial statements on pages 31 to 42 were approved by the Board on 17 March 2003 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 years ended 31 january	notes	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
operating activities					
investment income received		42,099	42,377	41,699	42,556
deposit interest received		5,273	5,899	2,170	2,586
underwriting commission received		10	5	10	5
savings and pension products charges		1,974	1,970	–	–
miscellaneous income received		155	127	–	–
net amounts received from depositors		9,318	9,791	–	–
expenses		(7,252)	(6,124)	(3,716)	(3,177)
net cash inflow from operating activities	13	51,577	54,045	40,163	41,970
servicing of finance					
interest paid		(1,120)	(1,428)	(84)	(115)
dividends paid on preference stocks		(97)	(97)	(97)	(97)
dividends paid to minority interests		(425)	(425)	–	–
net cash outflow from servicing of finance		(1,642)	(1,950)	(181)	(212)
taxation paid		(4,312)	(3,665)	(3,700)	(2,865)
investing activities					
purchase of investments		(163,274)	(177,324)	(149,670)	(171,028)
disposal of investments		151,034	213,549	140,034	206,697
net cash (outflow)inflow from investing activities		(12,240)	36,225	(9,636)	35,669
equity dividends paid		(35,028)	(34,524)	(35,028)	(34,524)
net cash (outflow)inflow before management of liquid resources and financing		(1,645)	50,131	(8,382)	40,038
management of liquid resources					
cash uplifted from(placed on) short-term deposits	15	845	(47,543)	6,491	(38,983)
(decrease)increase in cash	14	(800)	2,588	(1,891)	1,055

notes to the financial statements

for years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
1 investment income				
listed UK	28,015	28,320	27,002	27,283
unlisted UK	4	252	1,279	1,527
listed overseas	12,564	12,601	12,564	12,601
unlisted overseas	515	781	515	781
	41,098	41,954	41,360	42,192
2 expenses				
directors' remuneration	450	436	430	415
staff salaries	2,692	2,510	1,287	1,161
social security costs	250	248	142	138
regular pension contributions	732	646	374	328
additional pension contribution	*641*	–	*328*	–
remuneration of auditor for audit	28	27	17	16
remuneration of auditor for regulatory reports on behalf of Alliance Trust Savings Limited	4	2	–	–
other	2,225	2,273	1,148	1,100
	7,022	6,142	3,726	3,158

Details of directors' remuneration are given on pages 28 to 30. The Group employs 106 (100) full time and 24 (19) part time staff, excluding directors. Staff costs are shared with The Second Alliance Trust PLC. The management and administration expenses of the Company amounted to £3,726,000 (£3,158,000) representing 0.31% (0.19%) of the year end attributable net asset value of £1,202,061,000 (£1,670,119,000). The management and administration expenses of the Company, before the additional pension contribution, amounted to £3,398,000 representing 0.28% of the year end attributable net asset value.

The cost of insured benefits for staff including executive directors is included in other expenses.

The additional pension contribution is explained on page 6.

for years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
3 interest payable - all charged to revenue				
on deposits and overdrafts repayable within 5 years not by instalments	1,046	1,354	10	41
on debentures repayable wholly or partly in more than 5 years	74	74	74	74
	1,120	1,428	84	115

for years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
4 taxation - all charged to revenue				
UK corporation tax at 30.0% (30.0%)	4,225	4,627	3,727	4,061
overseas taxation	1,620	1,740	1,620	1,740
deferred taxation	(6)	(42)	(5)	(13)
recovery of French company tax (avoir fiscal)	(115)	(166)	(115)	(166)
	5,724	6,159	5,227	5,622
relief for overseas taxation	(1,620)	(1,740)	(1,620)	(1,740)
	4,104	4,419	3,607	3,882
reconciliation of tax charge				
return on ordinary activities before taxation	40,184	42,347	39,805	41,678
items not subject to corporation tax				
franked investment income	(26,044)	(26,845)	(27,319)	(28,120)
scrip dividends	(74)	–	(74)	–
	14,066	15,502	12,412	13,558
UK corporation tax payable at 30%	4,219	4,651	3,724	4,067
adjustments arising on the difference between taxation and accounting treatment of income and expenses	(10)	(19)	3	(1)
prior year adjustment	16	(5)	–	(5)
corporation tax charge for the year	4,225	4,627	3,727	4,061

for years ended 31 january	total capital 2003 £000	total capital 2002 £000	dividends 2003 £000	dividends 2002 £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 29p (28.0p) per stock unit			14,616	14,112
proposed final dividend of 40.5p (40.5p) per stock unit			20,412	20,412
	14,800	14,800	35,028	34,524

Provision has been made in these financial statements for the dividends on the Company's preference stocks, which will be payable on 1 May 2003. Dividends on these stocks are paid at the gross rate and carry a tax credit at the rate of 10% of the gross dividend.

notes to the financial statements

for years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
6 return and net asset value per ordinary stock unit				
earnings	35,694	37,479	36,101	37,699
capital	(468,724)	(304,562)	(469,131)	(304,782)
total return	(433,030)	(267,083)	(433,030)	(267,083)
equity stockholders' funds	1,202,061	1,670,119	1,202,061	1,670,119

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

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

for years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
7 fixed assets				
office premises freehold/heritable property				
at valuation	650	650	650	650
investments				
investments listed on a recognised investment exchange	1,153,104	1,604,189	1,131,256	1,584,573
unlisted investments	2,308	10,155	2,308	10,155
subsidiary companies (note 8)	–	–	28,725	29,006
	1,155,412	1,614,344	1,162,289	1,623,734

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 as at 1 February 2002	1,017,107	997,674	12,900	1,010,574
opening unrealised appreciation	*597,237*	*597,054*	*16,106*	*613,160*
opening valuation	1,614,344	1,594,728	29,006	1,623,734
movements in the year				
bond premium amortisation	(539)	–	–	–
purchases at cost*	161,129	147,525	–	147,525
sales – proceeds*	(150,604)	(139,604)	–	(139,604)
– realised losses on sales	(22,006)	(22,006)	–	(22,006)
decrease in unrealised appreciation	(446,912)	(447,079)	(281)	(447,360)
closing valuation	1,155,412	1,133,564	28,725	1,162,289
closing book cost	1,005,087	983,589	12,900	996,489
closing unrealised appreciation	150,325	149,975	15,825	165,800
closing valuation as at 31 January 2003	*1,155,412*	*1,133,564*	*28,725*	*1,162,289*

* In accordance with Statement of Recommended Practice "Financial Satements of Investment Trust Companies", expenses incidental to the purchase or sale of investments are included within the purchase cost or deducted from the sale proceeds. These expenses include commission costs of £780,000 (£848,000).

A geographical analysis of the investment portfolio by broad industrial or commercial sector is given on page 12.

A list of the 30 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 £28,725,000 (£29,006,000) being the net asset value of the Company's equity interests taking into account Government securities at market value.

A summarised statement of the balance sheets of the subsidiaries is shown below.

	ATS		ATF Group	
as at 31 january	2003 £000	2002 £000	2003 £000	2002 £000
government securities	13,573	10,356	7,926	9,079
money at call and short notice	65,715	58,832	699	812
loans to parent companies	–	–	16,000	16,000
debtors less creditors	253	–	61	10
	79,541	69,188	24,686	25,901
financed by:				
amounts due to depositors	66,277	54,651	–	–
creditors less debtors	–	1,946	–	–
	66,277	56,597	–	–
shareholders' funds	13,264	12,591	24,686	25,901
	79,541	69,188	24,686	25,901

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

	group		company	
as at 31 january	2003 £000	2002 £000	2003 £000	2002 £000

9 debtors

sales for subsequent settlement	1,935	2,365	1,935	2,365
loan to The Second Alliance Trust PLC (Note 17)	4,000	4,000	–	–
taxation recoverable	433	610	433	610
deferred taxation	48	42	18	13
prepayments and accrued income	3,073	3,793	2,170	2,508
other debtors	606	971	14	10
	10,095	11,781	4,570	5,506

10 creditors: amounts falling due within one year

amounts due to depositors	*65,579*	*54,264*	–	–
purchase for subsequent settlement	2,255	4,474	2,255	4,474
UK corporation tax payable	*1,146*	*1,525*	*960*	*1,225*
loan from ATF (Note 17)	–	–	12,000	12,000
proposed dividends	*20,461*	*20,461*	*20,461*	*20,461*
amount due to subsidiary company	–	–	53	–
other creditors	1,316	3,908	281	320
	90,757	84,632	36,010	38,480

notes to the financial statements

for the year ended 31 january 2003	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	1,017,555	597,550	42,414	1,016,256	613,519	27,744
exchange differences	235	–	–	235	–	–
net loss on realisation of investments	(22,006)	–	–	(22,006)	–	–
decrease in unrealised appreciation	–	(446,912)	–	–	(447,360)	–
minority interest	–	(41)	–	–	–	–
retained net revenue for the year	–	–	666	–	–	1,073
end of year	995,784	150,597	43,080	994,485	166,159	28,817

for years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
12 reconciliation of movements in stockholders' funds				
opening equity stockholders' funds	1,670,119	1,971,726	1,670,119	1,971,726
total recognised losses and gains after dividend	(468,058)	(301,607)	(468,058)	(301,607)
closing equity stockholders' funds	1,202,061	1,670,119	1,202,061	1,670,119
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 years ended 31 january	group 2003 £000	group 2002 £000	company 2003 £000	company 2002 £000
13 reconciliation of net revenue before interest and tax to net cash inflow from operating activities				
net revenue before interest payable and taxation	41,304	43,775	39,889	41,793
scrip dividends	(74)	–	(74)	–
amortisation – non-cash adjustment	539	424	–	–
decrease in accrued income	720	37	338	196
(decrease)increase in other creditors	(2,592)	2,221	14	(14)
decrease(increase) in other debtors	365	(277)	(4)	(5)
increase in amounts due to depositors	11,315	7,865	–	–
net cash inflow from operating activities	51,577	54,045	40,163	41,970
14 reconciliation of net cash flow to movement in net funds				
(decrease)increase in cash in the year	(800)	2,588	(1,891)	1,055
cash (uplifted from)placed on short-term deposits	(845)	47,543	(6,491)	38,983
foreign exchange gains(losses)	235	(1,399)	235	(1,399)
movement in net funds in year	(1,410)	48,732	(8,147)	38,639
net funds at start of year	139,845	91,113	68,909	30,270
net funds at end of year (Note 15)	138,435	139,845	60,762	68,909

for the year ended 31 january 2003	2002 £000	cash flow £000	exchange gains £000	2003 £000
15 analysis of change in net funds				
group				
cash at bank and in hand	3,969	(800)	–	3,169
bank deposits	137,524	(845)	235	136,914
debenture stock	(1,648)	–	–	(1,648)
	139,845	(1,645)	235	138,435
company				
cash at bank and in hand	2,394	(1,891)	–	503
bank deposits	80,163	(6,491)	235	73,907
debenture stock	(1,648)	–	–	(1,648)
loan from ATF	(12,000)	–	–	(12,000)
	68,909	(8,382)	235	60,762

16 derivatives and other financial instruments

The directors' report details the Company's approach to investment risk management on page 27 and the accounting policies on page 31 explain the basis on which currencies and investments are valued for accounting purposes.

No derivatives were used and no significant short-term borrowings were drawn down during the year to 31 January 2003. The Company had in issue throughout the year £3,848,000 (£3,848,000) of fixed rate debenture stock and preference stocks which have no fixed maturity or redemption dates. Their market value at 31 January was £3,167,000 (£3,125,000), a discount to book value of the equivalent of 1.4p (1.4p) per ordinary stock unit.

17 related parties

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

The Groups operate from the same office in Dundee, employ staff jointly and share the cost of common services. The basis of allocation is 75% for the Company and 25% for the Second Alliance Trust Group after allowing for a contribution from ATS and reflects the respective sizes of the companies. During the year to 31 January 2003 The Second Alliance Trust PLC paid a contribution of £744,000 (£535,000).

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 2003, 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 £302,000 (£254,000) due to SAL.

18 financial commitments

Financial commitments of the Company which have not been accrued amounted to £6,187,191 (£Nil) in respect of uncalled subscriptions in investments structured as limited partnerships.

notes to the financial statements

19 pension scheme

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

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

The principal assumptions used in this valuation were:

- Rate of increase in salaries p.a. 6.0%
- Rate of increase of pensions in payment p.a. 3.0%
- Rate of increase of deferred pensions p.a. 3.0%
- Rate of interest p.a. 7.0%
- Rate of dividend growth p.a. 3.5%
- Inflation assumption p.a. 3.0%

Following the recommendation of the report, the Group and The Second Alliance Trust PLC adopted a funding rate of 23.1% of pensionable salary from 1 April 2000. This contribution rate is due to be reviewed following the triennial valuation of the Scheme as at 1 April 2003. This rate excludes administration fees and insurance premiums for death-in-service benefits which the companies pay separately and which total a further 1.9% (2.4%) of pensionable salaries. As disclosed in note 2, the Group made an additional contribution of £641,000 (£nil). The total pension cost (inclusive of the additional contribution, administration fees and the cost of insurance of death-in-service benefits) to the Alliance Trust Group was £1,373,000 (£646,000). The cost to the Company was £702,000 (£328,000).

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs', under Financial Reporting Standard 17 'Retirement Benefits' ("FRS17")the following transitional disclosures are required as at 31 January 2003 using the different measurement basis prescribed by the Standard. In order to meet these requirements, a separate valuation of the Scheme's present assets and liabilities has been undertaken by the actuary as at 31 January 2003. The assumptions used by the actuary, which meet the requirements of FRS 17, were:-

- Rate of increase in salaries p.a. 3.5%
- Rate of increase of pensions in payment p.a. 2.5%
- Rate of increase of deferred pensions p.a. 2.5%
- Rate used to discount scheme liabilities p.a. 5.0%
- Inflation assumption p.a. 2.5%

On these assumptions, the fair value of the Scheme's assets, and the value of the Scheme's liabilities at 31 January 2003 were:

	£000
assets	10,287
liabilities	12,251
(deficit)	*(1,964)*

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

At 31 January 2003, 50.7% of the assets of the scheme were held in equities and the balance in bonds and current assets.

For the purposes of these financial statements these figures are illustrative only and do not impact on the consolidated balance sheet at 31 January 2003.

The assumed long-term rate of return over the following year is 5.0% for bonds and 7.5% for equities and other assets.

group

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

company

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

report of auditor

independent auditors' report to the members of The Alliance Trust PLC

We have audited the financial statements on pages 31 to 42. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

respective responsibilities of the directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 26, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the 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 Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures.

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

basis of audit opinion

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

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

opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 January 2003 and of the total return of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

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

17 March 2003

information for stockholders

incorporation

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

general enquiries

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

Meadow House, 64 Reform Street, Dundee DD1 9TJ
tel: 01382 201700 • fax: 01382 225133
e-mail: contact@alliancetrusts.com

If you have an enquiry about Alliance Trust Savings products, please contact the enquiries team by writing to Meadow House or by telephone or email:

Alliance Trust Savings Limited
Meadow House, 64 Reform Street, Dundee DD1 9YP
tel: 01382 306006 • fax: 01382 202250
e-mail: contact@alliancetrusts.com

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

registrars

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

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

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

news

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

confidentiality

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

stock price information

Daily price, net asset value and discount information is available on our website www.alliancetrusts.com.

electronic communications

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

dividend payments

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

financial calendar

final dividend and agm (year to 31 january 2003)	
ex-dividend date	9 April 2003
annual general meeting	25 April 2003
final dividend payment date	1 May 2003
interim dividend (year to 31 january 2004)	
proposed announcement date	18 August 2003
proposed ex-dividend date	17 September 2003
proposed interim dividend payment date	3 October 2003

dividend reinvestment

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

income tax on dividends

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

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

tax vouchers

Whether your dividends are paid directly to you, 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 income tax voucher for income received on all securities held in the Select 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.

annual general meeting

The 115th Annual General Meeting of the Company will be held at 11.30am on Friday 25 April 2003 at the Scottish School of Contemporary Dance, Dundee College, Old Glamis Road, Dundee. The meeting will take place in the award winning building "The Space" which is the home of the Dance School. The Notice of Meeting is sent seperately to all stockholders.

investor seminars

Details of the investor seminars held by ATS appear on page 47.

savings products

alliance trust savings limited (ATS)

Our savings products comprise the Select Pension, PEP, ISA and Investment Plans and the CAT ISA. All these products are provided and administered by ATS using our own staff and systems.

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

ATS also accepts transfers of PEPs, ISAs, pensions and share portfolios.

the select philosophy

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

Customers are stockholders: All ATS customers are stockholders in The Alliance Trust PLC and/or The Second Alliance Trust PLC. Each customer thereby has a direct interest in the success of the organisation as a whole. The minimum investment in the Trusts in each product is £50.

Flexibility: The products are designed for long-term investors, but recognise that there will be times when financial plans have to be changed. To achieve flexibility, subscriptions can be started and stopped without penalty, purchases made or deferred and investments sold, when required.

Self-select: Our products are designed for investors who wish to manage their own portfolios as well as those who wish to delegate some or all of their investment management through use of managed funds. Investors can choose on a self-select basis to invest in UK listed securities, including investment trusts, equities, corporate bonds, gilts and bond funds. Cash can be held within a deposit account.

No annual or ad valorem charges: Our charges are levied on a transaction basis according to the work involved. There are no annual or ad valorem fees. In particular, this means that large investors do not subsidise small ones, inactive investors do not subsidise active ones and long-term investors do not subsidise short-term ones. The low charges also reflect ATS' bargaining power, with around £850m of investors' assets being administered, and the economies of scale available, particularly through the use of modern computer systems. For example, for purchases of Alliance Trust stock the dealing charge is only £1, regardless of the amount invested, plus the unavoidable 0.5% stamp duty reserve tax.

stakeholder and CAT standards

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

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

select pension

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

select PEP

Transferring PEPs to ATS is now even more attractive for many individuals. Since the PEP rules were changed in 2001, the whole of a PEP can be invested in the Alliance Trusts. For those who wish to manage a spread of investments, the investment choice given by our Select PEP allows consolidation of PEPs held elsewhere, thereby enabling rationalisation and potentially more economical management. Unlike many other providers, ATS has no PEP transfer-in charge (dealing charges after transfer still apply).

select and CAT ISAs

The same features of the Select PEP are available in the Select ISA which, as well as accepting transfers, is available *for subscriptions up to the annual £7,000 limit. Stocks and shares and cash components are available on a maxi or mini* basis with the cash component also available on a TESSA-only basis. Tax-free interest is payable in the cash component and the full Select choice of securities is available in the stocks and shares component. As with the PEP, there is no transfer-in charge.

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

select investment plan

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

investor seminars

Alliance Trust Savings Limited hosts seminars for private investors which are held at various locations throughout the UK. We extend an invitation to all stockholders who would *like to come along to learn more about the Alliance Trusts and our savings products.* Those attending can meet informally with directors and management.

Seminar dates and locations are published on our website www.alliancetrusts.com

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

forthcoming investor seminars

date (2003)	time	where
Wednesday 25 June	2pm	DH Lawrence Pavilion, University Park, Nottingham NG7 2RD
Tuesday 23 September	2pm	Somerley, Ringwood, Hampshire BH24 3PL
Wednesday 24 September	10.15am	Somerley, Ringwood, Hampshire BH24 3PL