

Directors' Remuneration

Decisions on executive directors' remuneration are taken by the remuneration committee, the current members of which are detailed above.

In reaching conclusions on remuneration, the remuneration committee took into consideration the remuneration policy of the Group, a number of comparative remuneration surveys and increases in salary given to employees of the Group.

The remuneration policy of the Group is structured to recruit, motivate and retain personnel of the highest calibre so that the position of the Group in the European healthcare sector is maximised. This is achieved by a combination of fixed and variable payments, benefits, incentive plans and share option schemes. These are detailed below. The Board considers it unnecessary to seek shareholder approval of this policy.

Emoluments

The emoluments of the directors for the financial year ended 31 December 1999 were:

director	fees £000	salary and other cash £000	non-cash benefits £000	bonus payments £000	total 1999 £000	emoluments 1998 £000
B.M. Andrews	-	220	15	66	301	298
M.A. Bardsley	8	-	-	-	8	20
O. Barra	-	200	-	58	258	243
C. Berretti	20	-	-	-	20	11
K.H. Clarke	120	-	-	-	120	120
G.I. Cooper	-	248	16	63	327	292
N.E. Cross	20	-	-	-	20	20
A.De Bono	-	245	1	55	301	309
C. Etherington	-	211	9	56	276	226
J.F. Harris	-	385	11	100	496	352
S. Pessina	-	250	-	65	315	263
P. Ponsolle	20	-	-	-	20	20
Total	188	1,759	52	463	2,462	2,174

Executive directors are rewarded with bonus payments if the Group and/or their Division achieves the annual budgeted performance, after allowing for the cost of the bonuses, and/or the relevant executive has achieved a satisfactory personal performance. In respect of 1999, the maximum bonus payable was 40% of an individual's salary. In respect of 2000, the maximum bonus payable will be 50% of an individual's salary.

Long term incentive plan

The Share Incentive Plan is a discretionary scheme under which allocations are made to selected individuals. Each allocation takes the form of a non-binding statement of intent to make an award of a stated maximum amount following the end of a specified performance period. The directors' allocations under the Scheme are:

director	allocation 1	allocation 2
B.M. Andrews	73,333	110,000
O. Barra	66,667	100,000
G.I. Cooper	80,000	120,000
A. De Bono	80,000	120,000
C. Etherington	66,667	100,000
J.F. Harris	108,333	192,500
S. Pessina	83,333	125,000

The performance period for allocation 1 is 1 January 1998 to 31 December 2000 and for allocation 2 is 1 January 1999 to 31 December 2001.

Report of the Directors

The amount of the award will depend on achieving certain performance measures during the performance period:

performance measure	achievement		% awarded
total shareholder return	below median		-
	median	50%	12.5%
		+ 1%	+ 1.5%
	upper quartile	75%	50.0%
earnings per share	RPI-x	<+ 3%	-
		+ 3%	5.0%
		++0.1%	+ 4.5%
		>+ 4%	50.0%

Total shareholder return measures the total return to shareholders in terms of share price growth and dividends reinvested in the shares of the Company over the performance period. The performance will be compared with the same measure of performance for companies in the FTSE 250. Earnings per share is the diluted figure before exceptional items and goodwill amortisation as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government.

The award will take the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of 10 years from the date of the award. The number of shares will be determined by the market price of the Company's shares at the date of the award. The remuneration committee have the discretion to withhold or reduce awards to any extent it considers appropriate, having regard to the Company's underlying financial performance and irrespective of the level of attainment of the performance targets.

Pensions

The pension benefits earned by the directors during 1999 were:

director	age at year end	increase in accrued pension during the year	total accrued pension at year end	additional money purchase contributions	
				1999	1998
		£000	£000	£000	£000
B.M. Andrews	54	19	120	-	-
O. Barra	46	-	-	32	-
G.I. Cooper	44	3	17	13	13
C. Etherington	46	3	27	17	17
J.F. Harris	50	49	181	-	-

The accrued pension is a benefit of the defined benefit plan of the Company's Pension and Assurance Scheme. The increase in accrued pension during the year is net of the increase as a result of the revaluation of the deferred pension. The accrued pension at the end of 1998 for Jeff Harris, the highest paid director, was £124,000. The additional money purchase contributions are paid by the Company into separate schemes with no additional contributions from the directors. Any additional voluntary contributions paid by the directors, and the benefit arising from such contributions, are excluded from the above table.

Under the arrangements of the Pension and Assurance Scheme:

the normal retirement age of the directors is 60; Jeff Harris, on leaving service, is entitled to receive an unreduced pension from age 55; directors are required to pay a contribution of 5% of basic salary; the yearly average of performance related earnings paid over the previous three years is included in the definition of pensionable pay (this has currently been retained as the accrual rate of 1/45ths for each year of pensionable service is below market practice of 1/30ths for each year of pensionable service); a spouse's pension of one half of the director's pension is payable on death after retirement; a statutory minimum pension for the legal widow and the director's accumulated contributions are payable on death after leaving service but before retirement; directors' pensions are automatically increased each year after retirement in line with inflation; additional increases may be payable at the discretion of the Trustee of the scheme, subject to the approval of the Company; and, no allowance is made for discretionary benefits within transfer values.

Directors' Interests

Interests in fully paid shares

The interests of the directors and their immediate families, all of which are beneficial, in the ten pence ordinary shares of the Company are detailed below:

director	1 January 1999	acquired in the year	disposed in the year	31 December 1999	acquired in the period	disposed in the period	21 March 2000
B.M. Andrews	117,662	12,510	3,312	126,860	-	-	126,860
K.H. Clarke	1,600	2,169	-	3,769	-	-	3,769
G.I. Cooper	65,594	949	-	66,543	-	-	66,543
N.E. Cross	5,000	-	-	5,000	-	-	5,000
C. Etherington	9,759	3,528	9,678	3,609	6	-	3,615
J.F. Harris	186,550	7,822	-	194,372	47	-	194,419
S. Pessina	104,634,177	208,408	-	104,842,585	-	-	104,842,585
P. Ponsolle	500	-	-	500	-	-	500
Total	105,020,842	235,386	12,990	105,243,128	53	-	105,243,291

The Employee Share Trust held 3,033,333 shares at 31 December 1999. The Trust acquired 2 million shares during the period 3 June 1999 to 6 July 1999 at prices ranging between 429.5 pence and 450.0 pence. There were no other changes to this holding between 31 December 1998 and 21 March 2000. All employees and the executive directors are eligible to benefit from the trust.

The interests of Stefano Pessina are held by Alliance Santé Participations S.A.. The company, registered in Luxembourg, is indirectly wholly owned by Stefano Pessina, and the directors include Stefano Pessina, Ornella Barra, Claude Berretti and Antonin De Bono. No other interests in the fully paid shares of the Company are held by Ornella Barra, Claude Berretti and Antonin DeBono.

Interests in options over shares

The directors' options over ten pence ordinary shares of the Company are detailed below:

director	option	1 January 1999	granted / (exercised) in the year	31 December 1999	granted / (exercised) in the period	21 March 2000	exercise price (p)	mid-market price on exercise (p)	notional gain £000
B.M. Andrews	1	8,254	(8,254)	-	-	-	163.55	425.00	22
	2	3,312	(3,312)	-	-	-	208.33	559.50	12
	8	30,000	-	30,000	-	30,000	269.00	-	-
	9	45,000	-	45,000	-	45,000	268.50	-	-
	10	45,000	-	45,000	-	45,000	429.50	-	-
	12	3,194	-	3,194	-	3,194	324.00	-	-
		134,760	(11,566)	123,194	-	123,194			34
O. Barra	10	186,263	-	186,263	-	186,263	429.50	-	-
	11	-	63,737	63,737	-	63,737	435.00	-	-
		186,263	63,737	250,000	-	250,000			-
G.I. Cooper	3	9,154	-	9,154	-	9,154	213.00	-	-
	8	372	-	372	-	372	269.00	-	-
	9	36,872	-	36,872	-	36,872	268.50	-	-
	10	45,000	-	45,000	-	45,000	429.50	-	-
		91,398	-	91,398	-	91,398			-
A. De Bono	10	223,515	-	223,515	-	223,515	429.50	-	-
	11	-	26,485	26,485	-	26,485	435.00	-	-
		223,215	26,485	250,000	-	250,000			-

Report of the Directors

C. Etherington	2	3,312	(3,312)	-	-	-	208.33	522.50	10
	7	30,000	-	30,000	-	30,000	260.00	-	-
	8	30,000	-	30,000	-	30,000	269.00	-	-
	9	45,000	-	45,000	-	45,000	268.50	-	-
	10	45,000	-	45,000	-	45,000	429.50	-	-
	12	3,194	-	3,194	-	3,194	324.00	-	-
	13	-	1,757	1,757	-	1,757	384.00	-	-
		156,506	(3,312)	154,951	-	154,951			10
		1,757							
J.F. Harris	2	3,312	(3,312)	-	-	-	208.33	522.50	10
	4	4,791	-	4,791	-	4,791	216.00	-	-
	5	114,916	-	114,916	-	114,916	88.97	-	-
	6	45,000	-	45,000	-	45,000	253.99	-	-
	7	45,000	-	45,000	-	45,000	260.00	-	-
	8	30,000	-	30,000	-	30,000	269.00	-	-
	9	45,000	-	45,000	-	45,000	268.50	-	-
	10	45,000	-	45,000	-	45,000	429.50	-	-
13	-	1,757	1,757	-	1,757	384.00	-	-	
	333,019	1,757	331,464	-	331,464			10	
Total	1,125,461	(18,190)	1,201,007	-	1,201,007			54	
		93,736							

No options lapsed during the financial year or between 1 January 2000 and 21 March 2000. The mid-market price of shares of the Company ranged during 1999 between 386.5 pence on 17 August and 568.5 pence on 8 January and at 31 December was 414.0 pence.

The options above may be exercised:

option	type	first exercisable	exercisable until	performance criteria
1	savings related	1 June 1999	30 November 1999	-
2	savings related	1 January 1999	30 June 1999	-
3	savings related	1 July 2002	30 December 2002	-
4	savings related	1 December 2000	30 May 2001	-
5	discretionary	3 September 1993	2 September 2000	-
6	discretionary	1 November 1996	30 October 2003	-
7	discretionary	21 October 1997	20 October 2004	-
8	discretionary	18 October 1998	17 October 2005	-
9	discretionary	13 June 2000	12 June 2004	yes
10	discretionary	7 May 2001	6 May 2005	yes
11	discretionary	27 May 2002	26 May 2006	yes
12	savings related	1 August 2003	30 January 2004	-
13	savings related	1 July 2004	30 December 2004	-

The options granted to O. Barra and A. De Bono formed part of the arrangements of the merger with Alliance Santé S.A..

The options shown above as requiring a performance criteria are only exercisable if, at any time during the exercise period, earnings per share growth of the Company in the period from the grant of the option is greater than the increase in RPI-x plus 4% compound. Earnings per share is the diluted figure before exceptional items and goodwill amortisation as reported for a full accounting year. RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government. The target parameters may be changed by the remuneration committee should circumstances warrant it.

Employment agreements

Barry Andrews, Geoff Cooper and Chris Etherington have employment agreements that can be terminated by either party on twelve month's notice. Jeff Harris has an employment agreement that can be terminated by the Company on 12 month's notice or by him on 6 month's notice. There are provisions in the service agreements for pay in lieu on current salary for the unexpired period of appointment or to cover the required notice period. No other director has a service contract with the Company.

Other interests

Save for the interests mentioned below no director was materially interested in any contract during the financial year which is or was significant to the business of the Company or subsidiary undertakings.

Shareholders

In view of the obvious independence of the Chairman, Ken Clarke, the directors have not felt it necessary to appoint any other specific director to the role of senior independent director. The Chairman will receive the concerns that any shareholder may have on the Company.

The chief executive and finance director of the Company have regular meetings with institutional shareholders to discuss the overall strategy of the Group.

The notice convening the 2000 annual general meeting has been despatched with this annual report. Shareholders, whether they can attend the meeting or not, are encouraged to ask questions of the Board and space has been provided on the appointment form, despatched with the notice, for this purpose. It is the intention of all of the directors to be present at the annual general meeting.

Employees

The Group aims to employ the best qualified personnel and to provide equal opportunity in the selection and advancement of employees regardless of age, race, colour, national origin, religious persuasion, sex or marital status.

Full and fair consideration is also given to disabled applicants for employment, having regard to their particular aptitudes and abilities. If any employee becomes disabled the objective is the continued provision of suitable employment either in the same or an alternative position with appropriate training if necessary.

The Company communicates with all employees through regular staff briefings. All Group employees will be receiving a summary of the annual report which will include comments on their individual business units. Subject to practical and commercial considerations, employees are consulted and involved in decisions that affect their employment or future prospects.

Other matters

Creditors

It is the policy of the Group to abide by the payment terms negotiated with each of its suppliers whenever it is satisfied that the invoiced goods or services have been ordered and have been supplied in accordance with agreed terms and conditions. Alliance UniChem is a holding company and has no trade creditors, the number of days' purchases represented by period-end trade creditors for the UK wholesale business is 40.

Political and charitable gifts

£20,000, exclusive of tax credit, has been given to the Charities Aid Foundation. No political gifts were made during the financial year.

Animal testing

It is the policy of the Group that only skin care products that have not been tested on animals will be introduced to the Group's own brand ranges and that wherever possible the pharmacies owned by the Group will only stock other brands with the same policy.

Environment

Each operating business is responsible for maintaining the delivery of healthcare to its market. In maintaining this responsibility each operating business is mindful of the impact their operation has on the local environment and works to ensure that such impact is minimised. In addition, the Group insists that all local regulations and laws are adhered to. Costs or savings associated with this work and compliance have not been separately identified by the operating businesses and are absorbed within internal operating expenses.