

Board report on remuneration

The remuneration committee ("the Committee") determines the remuneration of the executive Directors and makes recommendations to the Board of any changes in terms and conditions of employment of executive Directors. The Committee consists of three Independent non-executive Directors: Ken Clarke (Chairman), Neil Cross and Patrick Ponsolle. Jeff Harris and Stefano Pessina attend meetings in advisory capacities but are not present when their own remuneration is discussed.

Remuneration policy

The aims of the Group's remuneration policy has been, and will continue to be, to: maximise the position of the Group in the European healthcare sector by attracting, retaining and motivating the highest calibre of executive Directors and senior executives; and align the rewards of those individuals with the interests of shareholders by linking part of the remuneration package to the performance of the Group.

In implementing the remuneration policy, the Committee has considered the principles in the Combined Code on Corporate Governance issued by the UK Financial Services Authority with regard to Directors' remuneration.

In accordance with the remuneration policy, the remuneration of the executive Directors is made up of a combination of basic salary, annual performance bonus, non-cash benefits, long-term incentive plan benefits, share options and pension arrangements, all of which are detailed below. The executive Directors' remuneration is reviewed at the start of each calendar year.

Employment agreements

Geoff Cooper, George Fairweather, Chris Etherington and Steve Duncan are employed within the Group under contracts that can be terminated by either party with notice of 12 months. Ornella Barra, Jeff Harris and Stefano Pessina have employment agreements that can be terminated by the Group with notice of 12 months or by each of them with notice of six months. There are provisions in the service agreements for pay in lieu of current salary for the un-expired period of appointment or to cover the required notice period.

Chris Etherington will be leaving the Group at the end of March 2003. By mutual agreement, this is before the date at the end of his notice period and no payment in lieu of current salary will be made.

Non-executive Directors

Ken Clarke is the Deputy Chairman and senior non-executive Director and receives a fee of £120,000 per annum. The other non-executive Directors are entitled to a fee (£25,000 per annum in 2002 and £35,000 per annum with effect from January 2003). Ken Clarke and Neil Cross are each paid an additional fee of £5,000 per annum for chairing the remuneration and audit committees respectively. Neil Cross and other members of the audit committee will each be paid an additional fee of £5,000 per annum with effect from January 2003. The fees paid reflect the time non-executive Directors are required to commit to their duties and amounts paid to non-executives in comparable companies. The UK Board Index of the 150 largest quoted companies by market value published by Spencer Stuart was used to assess comparability. The Board reviews these fees periodically and no Director is permitted to vote in respect of their own remuneration.

Non-executive Directors derive no other benefits from their office and are not eligible to participate in the Group's pension arrangements. It is Company policy not to grant share options to non-executive Directors or to require part of their fees to be paid in the form of shares.

Salaries

The setting of basic salary reflects the Committee's assessment of the market rate for relevant positions taking into account the levels of responsibility, the individual Director's experience and their contribution to the business. For determining basic salary in 2002, the Committee used a number of comparative remuneration surveys, the principal one being provided by Executive Remuneration Review Limited ("ERRL"). The ERRL survey comprised 95 companies, 27 of which were in the FTSE 100 index and 31 were in the FTSE mid-250 index, and comparability was measured against companies with a similar market capitalisation and similar turnover. For determining basic salary in 2003, the Committee appointed and received advice from Monks Partnership. Monks Partnership does not provide any other service to the Company. Where a Director is entitled to a benefit but chooses not to take that benefit, a supplement to the salary is paid in lieu of that benefit. The amount paid to each Director in 2002 is detailed in the emoluments section below.

Benefits

Other benefits available to Directors relate to the provision of company cars, private medical insurance, personal accident insurance, travel insurance and, for Stefano Pessina, the cost of travel to and from work and accommodation while working for the Group in the UK. The provision of these benefits reflects market practice and is not related to performance. The value of these non-cash benefits for each Director in 2002, including expenses chargeable to UK income tax, are detailed in the emoluments section below.

Annual performance bonuses

The annual performance bonus rewards executive Directors for the Group and individual divisions for which they are responsible achieving their budgeted performance, after the cost of the bonuses. The payment also takes into account personal performance.

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In 2002, the budgeted performance was based on the challenging but achievable 2002 budget for earnings, before amortisation of intangible assets, at constant exchange rates, agreed by the Board at the beginning of the year. Depending upon responsibilities, a bonus of between 5% and 15% was payable for performance of 100% of the Group and divisional performance, rising to 40% for performance of 105% of the Group and divisional budgeted performance.

Personal performance was based on a 360-degree appraisal process and determined by the remuneration committee. Depending on responsibilities, a bonus of up to 15% was payable based on this appraisal and other factors.

The maximum bonus an executive Director could receive was 50% of their basic salary. The amount due to each Director in respect of performance in 2002 is detailed in the emoluments section below.

Emoluments

The emoluments of the Directors for the financial year ended 31 December 2002 were:

Director	Salaries and fees £'000	Benefits £'000	Bonus payments £'000	Total emoluments excluding pensions	
				2002 £'000	2001 £'000
Executive Directors					
J.F. Harris	463	22	185	670	560
S. Pessina	325	92	130	547	355
G.I. Cooper	319	11	124	454	361
G.R. Fairweather	245	5	81	331	–
C. Etherington	241	22	85	348	326
O. Barra	241	–	84	325	265
	1,834	152	689	2,675	1,867
Non-executive Directors					
K.H. Clarke	125	–	–	125	125
N.E. Cross	30	–	–	30	30
P. Ponsolle	25	–	–	25	25
P. Scaroni	2	–	–	2	–
C. Berretti	25	–	–	25	25
	207	–	–	207	205
Former Directors	–	–	–	–	336
Total	2,041	152	689	2,882	2,408

Etienne Jornod waived his entitlement to a Director's fee of £25,000 in 2001 and 2002, as part of the agreement with Galenica on reciprocal Board representation.

Long-term incentive plan

The long-term incentive plan is a discretionary arrangement under which allocations are made to executive Directors with the aim of rewarding them for creating shareholder value. 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 allocation is determined as a percentage of basic salary in the year the performance period starts. The Directors' allocations outstanding at 10 March 2003 are:

Director	2000 allocation maximum amount £	2001 allocation maximum amount £	2002 allocation maximum amount £	2003 allocation maximum amount £
J.F. Harris	280,000	299,667	308,666	–
S. Pessina	183,333	196,167	216,666	233,333
G.I. Cooper	176,667	189,000	206,666	233,333
G.R. Fairweather	–	–	155,775	220,000
O. Barra	143,333	153,333	160,666	180,000
S.W. Duncan	–	–	–	156,667

Chris Etherington will be leaving the Group at the end of March 2003 and allocations previously made to him lapsed when he gave notice to end his employment with the Group.

The performance periods for the allocations are:

	2000 allocation	2001 allocation	2002 allocation	2003 allocation
Period start	1 January 2000	1 January 2001	1 January 2002	1 January 2003
Period end	31 December 2002	31 December 2003	31 December 2004	31 December 2005

The amount of the award is dependent on the achievement of certain performance measures during the performance period that the remuneration committee believe are the most appropriate measure of the underlying performance of the Group. For 2000, 2001 and 2002, these measures are:

Performance measure	Achievement	% awarded
Total shareholder return	below median	–
	at median (50%)	12.5
	for every 1% above median	+1.5
	up to upper quartile (75%)	50.0
Earnings per share	below RPI-x +3%	–
	at RPI-x +3%	5.0
	for every 0.1% above RPI-x +3%	+4.5
	Up to RPI-x +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. Performance is compared with the same measure of performance for companies in the FTSE 250. Earnings per share are defined as the diluted earnings per share before amortisation of intangibles, taxation and exceptional items 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 performance against RPI-x is calculated on a per annum compound basis.

For the 2003 allocation, the total shareholder return measure will be compared with the performance of companies in the FTSE 100, although the committee intend to move to a more suitable European index. In addition, the earnings per share measure has been changed to:

Performance measure	Achievement	% awarded
Earnings per share	below RPI-x +5%	–
	at RPI-x +5%	5.0
	for every 0.1% above RPI-x +5%	+4.5
	Up to RPI-x +6%	50.0

The award takes the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of ten 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 has the discretion to withhold or reduce awards to any extent it considers appropriate, having regard to the Group's underlying financial performance and irrespective of the level of attainment of the performance targets.

During 2002, awards were made on allocations with the performance period 1 January 1999 to 31 December 2001. During the performance period, the Company was below the median in the comparator group on total shareholder return and the increase in earnings per share was in excess of RPI-x +4%. On this basis, awards equivalent to 50% of the allocations were made and converted into share options at 609 pence per share, as follows:

Director	Allocation £	Award nominal value £	Award share options number
J.F. Harris	192,500	96,250	15,804
S. Pessina	125,000	62,500	10,262
G.I. Cooper	120,000	60,000	9,852
C. Etherington	100,000	50,000	8,210
O. Barra	100,000	50,000	8,210

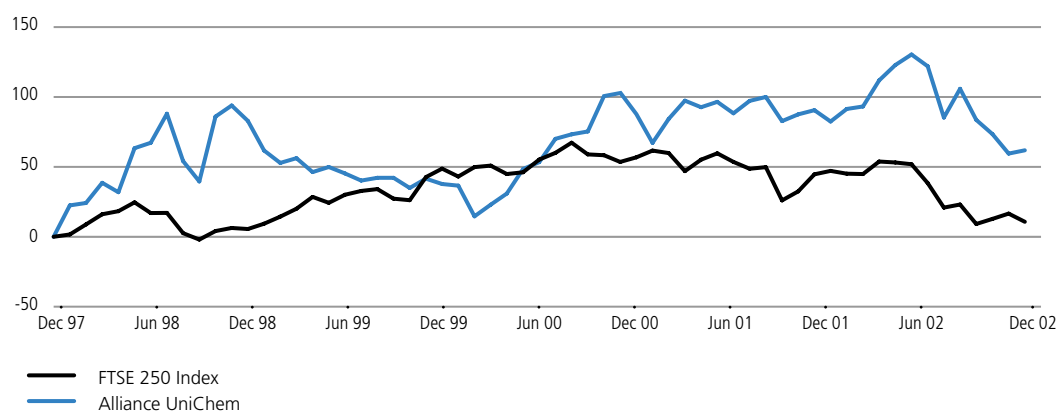
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The awards are further detailed in the table of interests in share option schemes below.

Following the end of the performance period for the 2000 Allocation detailed above, the remuneration committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 100% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 86th percentile of the comparator group on shareholder return and the increase in earnings per share was in excess of RPI-x +4%.

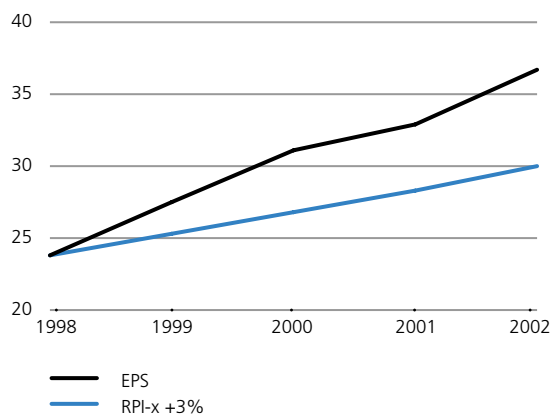
Performance

Total shareholder return for the Company and total shareholder return for FTSE 250 companies, being the comparator group used for the long-term incentive plan, over the five years ending 31 December 2002 are:



The mid-market price of shares of the Company ranged during 2002 between 672.5 pence on 13 June and 431.5 pence on 18 November and at 31 December was 447.0 pence.

The increase in earnings per share over the five years ending 31 December 2002 compared to RPI-x +3% over the same period is:



Pensions

Pension benefits earned by the Directors during 2002 were:

Director	Age at year end	Increase in accrued pension during the year £'000	Total accrued pension at year end £'000	Salary supplement paid during the year £'000	Additional money purchase contributions		Transfer value of defined benefits at 31 December		Increase in transfer value during the year net of Director's contributions £'000
					2002 £'000	2001 £'000	2002 £'000	2001 £'000	
J.F. Harris	54	24	302	–	–	–	5,652	4,907	722
G.I. Cooper	48	3	28	55	84	62	264	226	23
G.R. Fairweather	45	2	2	24	37	–	18	–	7
C. Etherington	50	3	38	43	64	56	367	326	29
O. Barra	49	–	–	–	72	69	–	–	–

S. Pessina has no pension benefits.

The increase in accrued pension during the year excludes the increase resulting from inflation. The accrued pension is a benefit of the defined benefit plan of the Company's pension scheme. The accrued pension at the end of 2001 for Jeff Harris, the highest paid Director, was £273,000.

The Company pays the additional money purchase contributions 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 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; 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.

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Share option schemes

The Company operates two discretionary and one savings related share option scheme, which are open to executive Directors as well as other employees. Details of outstanding options under these schemes can be found in note 22 to the financial statements.

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

Director	Type	31 December 2001	Granted in the year	Exercised in the year	31 December 2002	Exercise price £	Market price on exercise £	Normally exercisable from
J.F. Harris	S	1,757	–	–	1,757	3.8400		01.07.2004 to 30.12.2004
	S	1,255	–	–	1,255	4.6300		01.07.2004 to 30.12.2004
	D	45,000	–	–	45,000	2.5399		01.11.1996 to 30.10.2003
	D	45,000	–	–	45,000	2.6000		21.10.1997 to 30.10.2004
	D	45,000	–	–	45,000	4.2950		07.05.2001 to 06.05.2005
	L	18,299	–	–	18,299	0.0001		06.04.2001 to 05.04.2011
	L	–	15,804	–	15,804	0.0001		19.03.2002 to 18.03.2012
		156,311	15,804	–	172,115			
S. Pessina	L	–	10,262	10,262	–	0.0001	6.5950	19.03.2002 to 18.03.2012
		–	10,262	10,262	–			
G.I. Cooper	S	9,154	–	9,154	–	2.1300	5.9400	01.07.2002 to 30.12.2002
	S	3,644	–	–	3,644	4.6300		01.07.2006 to 31.12.2006
	D	372	–	–	372	2.6900		18.10.1998 to 17.10.2005
	D	36,872	–	–	36,872	2.6850		13.06.2000 to 12.06.2004
	D	45,000	–	–	45,000	4.2950		07.05.2001 to 06.05.2005
	L	13,513	–	13,513	–	0.0001	5.3000	06.04.2001 to 05.04.2011
	L	–	9,852	–	9,852	0.0001		19.03.2002 to 18.03.2012
		108,555	9,852	22,667	95,740			
C. Etherington	S	3,194	–	–	3,194	3.2400		01.08.2003 to 30.01.2004
	S	1,757	–	–	1,757	3.8400		01.07.2004 to 30.12.2004
	D	45,000	–	45,000	–	4.2950	5.2000	07.05.2001 to 06.05.2005
	L	–	8,210	8,210	–	0.0001	5.2000	19.03.2002 to 18.03.2012
		49,951	8,210	53,210	4,951			
O. Barra	D	186,263	–	–	186,263	4.2950		07.05.2001 to 06.05.2005
	D	63,737	–	–	63,737	4.3500		27.05.2002 to 26.05.2006
	L	–	8,210	8,210	–	0.0001	6.5950	19.03.2002 to 18.03.2012
		250,000	8,210	8,210	250,000			
Total		564,817	52,338	94,349	522,806			

S = savings D = discretionary L = long-term incentive plan

There were no changes to the options of the Directors above between 1 January 2003 and 10 March 2003. Steve Duncan was appointed a Director on 13 January 2003 and on that date and at 10 March 2003 his options over ten pence ordinary shares were:

Director	Type	Number	Exercise price £	Normally exercisable from
S.W. Duncan	D	15,000	3.7900	23.03.2003 to 22.03.2007
	S	5,324	3.2400	01.08.2003 to 31.01.2004
	D	15,000	5.9200	06.04.2004 to 05.04.2008
	D	20,000	6.0900	09.04.2005 to 08.04.2009
		55,324		

No options lapsed between 1 January 2002 and 10 March 2003. Chris Etherington will be leaving the Group at the end of March 2003 and his options will lapse at that date.

The options granted to O. Barra with an exercise price of £4.2950 and £4.3500 formed part of the arrangements of the merger with Alliance Santé S.A..

The options with an exercise price of £2.6850, £4.2950, £4.3500, £3.7900, £5.9200 and £6.0900 are exercisable only if, at any time during the exercise period, earnings per share growth of the Company in the period from the grant of the option was greater than the increase in RPI-x plus 4% compound. Earnings per share are defined as the diluted earnings per share before amortisation of intangibles, taxation and exceptional items 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 performance criteria in respect of options with an exercise price of £2.6850, £4.2950 and £4.3500 have been passed.

Directors' shareholdings

The beneficial interests of the Directors in office at 10 March 2003 and their families in the share capital of the Company are shown below. The Company's register of Directors' interests, which is open to inspection, contains full details of Directors' interests in the Company's shares.

Director	Ordinary shares 31 December 2002	Ordinary shares 31 December 2001*
J.F. Harris	327,520	347,358
S. Pessina	105,124,438	105,113,714
G.I. Cooper	94,192	69,225
G.R. Fairweather	2,000	–
C. Etherington	17,240	14,941
O. Barra	19,471	11,261
K.H. Clarke	6,340	3,916
N.E. Cross	5,000	5,000
P. Ponsolle	500	500
Total	105,596,701	105,565,915

*Or at date of appointment, if later.

There were no changes to the Directors' shareholdings between 1 January 2003 and 3 March 2003.

A trust exists for facilitating the holding of shares in the Company by employees and the executive Directors (the 1992 Employee Trust). The trust held 3,678,348 shares in the Company on 31 December 2001, 6,358,341 shares on 31 December 2002 and 6,358,341 shares on 3 March 2003.

105,099,503 shares of the interest of Stefano Pessina are held by Alliance Santé Participation S.A.. Stefano Pessina indirectly wholly owns the Company, registered in Luxembourg, and the Directors include Stefano Pessina and Ornella Barra. The other interests of Ornella Barra in the fully paid shares of the Company are as detailed in this report.

Other interests

Save for the interests mentioned in this report, no Director was materially interested in any contract during the financial year that is or was significant to the business of the Company or any subsidiary undertakings.

Audit

The Directors' emoluments in 2002 and the details of Directors' pensions have been audited by the Company's principal external auditor.

Approved by the Board of Directors and signed on their behalf

Adrian Goodenough
Company Secretary
10 March 2003