

# 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 to the terms and conditions of employment of executive Directors. The Committee consists of four independent non-executive Directors: Ken Clarke (Chairman), Neil Cross, Adrian Loader 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 their remuneration package to the performance of the Group and the creation of long-term shareholder value.

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, which applied to this period, with regard to Directors' remuneration.

In accordance with the remuneration policy, the remuneration of 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 benefits, all of which are detailed below. The executive Directors' remuneration is reviewed at the start of each calendar year.

## Service contracts

Geoff Cooper, George Fairweather, Per Utnegaard and Steve Duncan are employed within the Group under contracts that can be terminated by either party with notice of twelve months. Stefano Pessina and Ornella Barra have service contracts that can be terminated by the Group with notice of twelve months or by each of them with notice of six months. There are provisions in the service contracts for payment in lieu of current salary to cover the required notice period. Were the situation to arise, the Company intends to apply the principle of mitigation to any payment of compensation on termination as a result of unsatisfactory performance. The dates of the executive Directors' current service contracts are:

Director	Contract date
S. Pessina	10 December 2002
G.I. Cooper	4 March 1994
G.R. Fairweather	28 March 2002
O. Barra	10 December 2002
P. Utnegaard	3 September 2003
S.W.J. Duncan	29 December 1995

The Company recognises that its executive Directors may be invited to become non-executive Directors of other listed companies and that such duties can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept one external non-executive appointment with the Company's prior approval as long as this is not in any way connected with the company's business and would not lead to any conflict of interest. Fees received by the Director may be retained. Jeff Harris is a non-executive Director of Bunzl and retained fees for that appointment of £7,916 during the period he was executive Chairman of Alliance UniChem Plc. He is also a Director of Andreae-Noris Zahn, a German company in which the Group has an interest, the fees payable being retained by the Company. Stefano Pessina is a non-executive Director of Galenica, an associate company. He waived his entitlement to a Director's fee as part of the agreement with Galenica on reciprocal board representation. Geoff Cooper was appointed a non-executive Director of Abbey National in January 2004 and will retain the fees payable. George Fairweather was appointed a non-executive Director of Mitchells & Butlers in April 2003 and retained fees paid of £33,986 in 2003 for that appointment.

## 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 his or her contribution to the business. For determining basic salary in 2003 and 2004, 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 2003 is detailed in the emoluments section below.

## Benefits

Other benefits available to executive Directors relate to the provision of company cars or a car allowance, private medical insurance, and, for Stefano Pessina, and in the case of Ornella Barra from September 2003, 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 2003, 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.

In 2003, the budgeted performance was based on the challenging but achievable 2003 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.

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 2003 is detailed in the emoluments section below.

### Non-executive Directors

All non-executive Directors are entitled to a basic fee of £35,000. Jeff Harris retired as an executive in April 2003, continuing as Chairman in a non-executive capacity under which he is entitled to a total fee of £250,000 per annum. In addition, in 2003 he received £15,000 of unfunded pension payments directly from the Company, further details of which are set out in the pensions section of this report. Ken Clarke is the Deputy Chairman and senior independent non-executive Director and receives a total fee of £125,000 per annum, which includes a fee of £5,000 per annum for chairing the remuneration committee. Neil Cross receives a total fee of £45,000, which includes a fee of £10,000 per annum for chairing and serving on the audit committee. Other members of the audit committee are each paid an additional fee of £5,000 per annum. 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. Jeff Harris receives a pension in respect of his service whilst acting as an executive of the Company. 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. Jeff Harris will continue to be eligible to receive share options in connection with allocations made under the long-term incentive plan whilst he was an executive Director. In the case of the award arising from the 2000 allocation he has a year in which to exercise his option. In the case of any award arising from the 2001 allocation he will be entitled to 50% of the award and will have six months to exercise the award and in the case of any award arising from the 2002 allocation he will be entitled to 25% of the award and will have six months to exercise the award.

Non-executive Directors are appointed for fixed terms, normally of three years. Non-executive Directors who have served beyond six years are subject to a more rigorous review when they come up for re-election. This review takes account of the need for progressive refreshing of the Board. The initial appointment dates and next date of election/re-election for the current non-executive Directors are as follows:

Director	Appointment date	Date when next subject to election/re-election
J.F. Harris	1 August 1986	Re-election 2004 AGM
K.H. Clarke	9 September 1997	Re-election 2004 AGM
N.E. Cross	17 February 1997	Re-election 2005 AGM
A.W. Loader	24 September 2003	Election 2004 AGM
P. Ponsolle	30 December 1997	Re-election 2006 AGM
P. Scaroni	10 December 2002	Re-election 2006 AGM
M. Stach	8 December 2003	Election 2004 AGM
C.J.S. Berretti	12 June 1998	Retiring at conclusion of 2004 AGM
E. Jornod	26 January 2000	Re-election 2006 AGM

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### Emoluments

The emoluments of the Directors for the financial year ended 31 December 2003 were:

Director	Salaries and fees £'000	Benefits £'000	Bonus and cash payments £'000	Total emoluments excluding pensions	
				2003 £'000	2002 £'000
<b>Executive Directors</b>					
J.F. Harris <sup>(1)</sup>	138	8	–	146	670
S. Pessina	350	54	175	579	547
G.I. Cooper	350	23	175	548	454
G.R. Fairweather <sup>(2)</sup>	330	22	165	517	331
O. Barra	270	5	108	383	325
P. Utnegaard <sup>(3)</sup>	116	7	–	123	–
S.W.J. Duncan <sup>(4)</sup>	235	20	117	372	–
C. Etherington <sup>(5)</sup>	68	8	–	76	348
	1,857	147	740	2,744	2,675
<b>Non-executive Directors</b>					
J.F. Harris <sup>(1)</sup>	181	–	15	196	–
K.H. Clarke	125	–	–	125	125
N.E. Cross	45	–	–	45	30
A.W. Loader <sup>(6)</sup>	11	–	–	11	–
P. Ponsolle	40	–	–	40	25
P. Scaroni <sup>(7)</sup>	40	–	–	40	2
M. Stach <sup>(8)</sup>	2	–	–	2	–
C.J.S. Berretti	35	–	–	35	25
	479	–	15	494	207
<b>Total</b>	<b>2,336</b>	<b>147</b>	<b>755</b>	<b>3,238</b>	<b>2,882</b>

<sup>(1)</sup>retired as an executive in April 2003, continuing in a non-executive capacity thereafter; his total emoluments for 2003 were £342,000

<sup>(2)</sup>prior year emoluments include only nine months as an executive Director

<sup>(3)</sup>appointed in September 2003

<sup>(4)</sup>appointed in January 2003

<sup>(5)</sup>resigned in March 2003

<sup>(6)</sup>appointed in September 2003

<sup>(7)</sup>prior year emoluments include only one month as a non-executive Director

<sup>(8)</sup>appointed in December 2003

Etienne Jornod waived his entitlement to a Director's fee of £35,000 (2002 £25,000), 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 24 February 2004 are:

Director	2001 allocation maximum amount £	2002 allocation maximum amount £	2003 allocation maximum amount £	2004 allocation maximum amount £
J.F. Harris	299,667	308,666	–	–
S. Pessina	196,167	216,666	233,333	300,000
G.I. Cooper	189,000	206,666	233,333	266,666
G.R. Fairweather	–	155,775	220,000	233,333
O. Barra	153,333	160,666	180,000	193,333
P. Utnegaard	–	–	–	206,666
S.W.J. Duncan	–	–	156,667	186,666

The performance periods for the allocations are:

	2001 allocation	2002 allocation	2003 allocation	2004 allocation
Period start	1 January 2001	1 January 2002	1 January 2003	1 January 2004
Period end	31 December 2003	31 December 2004	31 December 2005	31 December 2006

The amount of the award is dependent on the achievement of certain performance measures during the performance period that the Committee believe are the most appropriate measure of the underlying performance of the Group. 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. Inbucon Group provides the Committee with a total shareholder return monitoring report and advises on performance under the long-term incentive plan based on diluted earnings per share performance. Earnings per share are defined as the diluted earnings per share before amortisation of intangible assets 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 2001 and 2002 allocation, the total shareholder return measure is compared with the performance of companies in the FTSE 250.

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%

For the 2003 and 2004 allocations, the total shareholder return measure is compared with the performance of companies in the FTSE 100, and the earnings per share measure was 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 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 2003, awards were made on allocations with the performance period 1 January 2000 to 31 December 2002. During the performance period, the Company was in the 86th percentile of 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 100% of the allocations were made and converted into share options at 467 pence per share, as follows:

Director	Allocation £	Award nominal value £	Award share options number
J.F. Harris	280,000	280,000	59,957
S. Pessina	183,333	183,333	39,257
G.I. Cooper	176,667	176,667	37,830
O. Barra	143,333	143,333	30,692

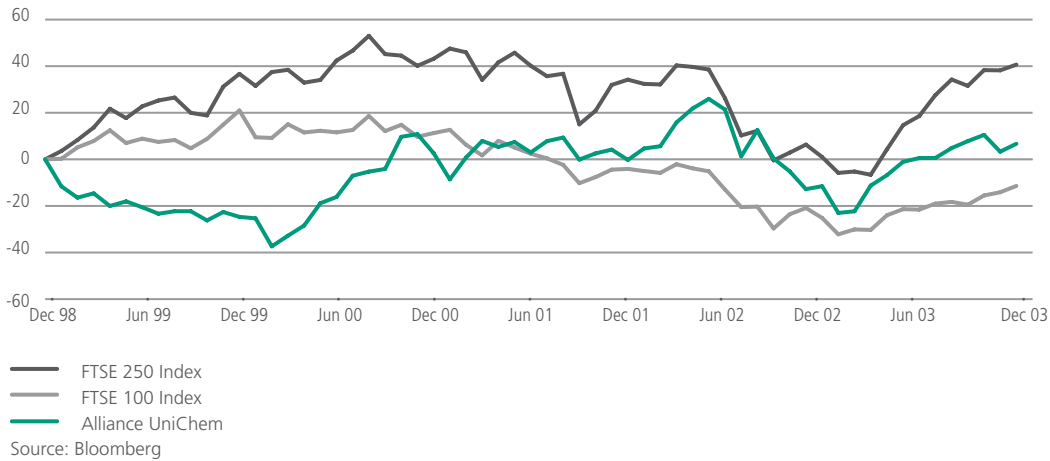
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The awards are further detailed in the table of interests in share option schemes below.

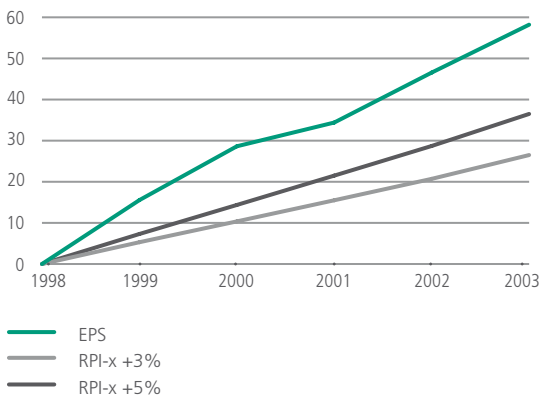
Following the end of the performance period for the 2001 allocation detailed above, the Committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 82% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 63rd 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 and FTSE 100 companies, being the comparator groups used for the long-term incentive plan, over the five years ending 31 December 2003 are:



The increase in earnings per share over the five years ending 31 December 2003 compared to RPI-x +3% and RPI-x +5% over the same period is:



## Pensions

Pension benefits earned by the Directors during 2003 were:

Director	Age at year end	Increase in accrued pension during the year (excluding inflation) £'000	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
						2003 £'000	2002 £'000	2003 £'000	2002 £'000	
J.F. Harris	55	46	45	353	–	–	–	6,900	5,652	1,241
G.I. Cooper	49	3	4	32	61	89	84	315	264	36
G.R. Fairweather	46	3	3	6	43	49	37	46	18	13
O. Barra	50	–	–	–	–	81	72	–	–	–
S.W.J. Duncan <sup>(1)</sup>	52	15	16	110	–	–	–	1,272	1,019	242
C. Etherington <sup>(2)</sup>	51	–	–	39	12	18	64	407	367	37

<sup>(1)</sup>existing member of pension scheme on appointment in January 2003

<sup>(2)</sup>resigned March 2003

Stefano Pessina has no pension benefits. Per Utnegaard is eligible to join the Company's pension scheme with effect from 1 January 2004.

The accrued pension is a benefit of the defined benefit plan of the Company's pension scheme. The arrangements of the pension scheme are as follows: the normal retirement age of the Directors is 60; Jeff Harris received an unreduced pension from age 55, based on arrangements entered into with the Company in 1992. The pension arising was agreed to be calculated on the basis of the annual rate of basic salary at the time of retirement plus the annual average of car/fuel benefit and bonus over the three years preceding retirement. £14,000 of this pension is unfunded and paid directly by the Company, and the cost for this is reported in the emoluments disclosure. The above figures take account of this unfunded pension liability. All current executive Directors' pension benefits are calculated excluding bonuses. 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; no allowance is made for discretionary benefits within transfer values.

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 benefits arising from such contributions, are excluded from the table.

## Board report on remuneration (continued)

### Share option schemes

In addition to the long-term incentive plan, the Company operates two discretionary and one savings related share option scheme, which are open to executive Directors as well as certain other employees. Details of outstanding options under these schemes are shown in note 22 to the financial statements.

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

Director	Type	1 January 2003*	Granted in the year	Exercised <sup>(a)</sup> /lapsed <sup>(b)</sup> in the year	31 December 2003	Exercise price £	Market price on exercise £	Normally exercisable from
J.F. Harris	S	1,757	–	1,757 <sup>(b)</sup>	–	3.8400		01.07.2004 to 31.12.2004
	S	1,255	–	1,255 <sup>(b)</sup>	–	4.6300		01.07.2004 to 31.12.2004
	d	45,000	–	45,000 <sup>(a)</sup>	–	2.5399	5.380	01.11.1996 to 30.10.2003
	d	45,000	–	45,000 <sup>(a)</sup>	–	2.6000	5.380	21.10.1997 to 20.10.2004
	D	45,000	–	45,000 <sup>(a)</sup>	–	4.2950	4.400	07.05.2001 to 06.05.2005
	L	18,299	–	18,299 <sup>(a)</sup>	–	0.0001	4.400	06.04.2001 to 05.04.2011
	L	15,804	–	15,804 <sup>(a)</sup>	–	0.0001	4.400	19.03.2002 to 18.03.2012
		–	59,957	–	59,957	0.0001		17.04.2003 to 16.04.2004
		172,115	59,957	172,115	59,957			
S. Pessina	L	–	39,257	39,257 <sup>(a)</sup>	–	0.0001	4.965	17.04.2003 to 16.04.2013
		–	39,257	39,257	–			
G.I. Cooper	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	9,852	–	–	9,852	0.0001		19.03.2002 to 18.03.2012
	L	–	37,830	–	37,830	0.0001		17.04.2003 to 16.04.2013
		95,740	37,830		133,570			
G.R. Fairweather	S	–	2,804	–	2,804	3.3700		01.07.2006 to 31.12.2006
			2,804		2,804			
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	–	30,692	30,692 <sup>(a)</sup>	–	0.0001	4.965	17.04.2003 to 16.04.2013
		250,000	30,692	30,692	250,000			
S.W.J. Duncan	S	5,324	–	5,324 <sup>(a)</sup>	–	3.2400	5.305	01.08.2003 to 31.01.2004
	D	15,000	–	15,000 <sup>(a)</sup>	–	3.7900	5.546	23.03.2003 to 22.03.2007
	D	15,000	–	–	15,000	5.9200		06.04.2004 to 05.04.2008
	D	20,000	–	–	20,000	6.0900		09.04.2005 to 08.04.2009
		55,324		20,324	35,000			
C. Etherington	S	3,194	–	3,194 <sup>(b)</sup>	–	3.2400		01.08.2003 to 31.01.2004
	S	1,757	–	1,757 <sup>(b)</sup>	–	3.8400		01.07.2004 to 31.12.2004
		4,951		4,951	–			
<b>Total</b>		578,130	170,540	267,339	481,331			

\*or at date of appointment, if later.

S = Savings Related Share Option Scheme 1990  
d = Discretionary Executive Share Option Scheme 1990  
D = Discretionary 1997 Share Option Scheme  
L = Long-term incentive plan

The aggregate gains before tax made by the Directors on the exercise of share options was £792,308 (2002 £311,731).

There were no changes to the options of the Directors above between 1 January 2004 and 24 February 2004.

The mid-market price of shares of the Company ranged during 2003 between 555.0 pence on 15 October and 375.0 pence on 12 March and at 31 December was 519.0 pence.

No further awards will be made under the Executive Share Option Scheme 1990.

The options granted under the 1997 Share Option Scheme 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 intangible assets 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, £4.3500 and £3.7900 have been passed.

The options granted to Ornella Barra under the 1997 Share Option Scheme with an exercise price of £4.2950 and £4.3500 formed part of the arrangements of the merger with Alliance Santé S.A..

### Directors' shareholdings

The beneficial interests of the Directors in office at 31 December 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 2003	Ordinary shares 1 January 2003*
J.F. Harris	229,050	327,520
K.H. Clarke	6,566	6,340
S. Pessina	106,415,034	105,124,438
G.I. Cooper	94,052	94,052
G.R. Fairweather	2,000	2,000
O. Barra	51,207	19,471
P. Utnegaard	–	–
S.W.J. Duncan	8,112	–
N.E. Cross	5,000	5,000
A.W. Loader	–	–
P. Ponsolle	500	500
P. Scaroni	–	–
M. Stach	–	–
C.J.S. Berretti	–	–
E. Jornod	–	–
<b>Total</b>	<b>106,811,521</b>	<b>105,579,321</b>

\*or at date of appointment, if later.

There were no changes to Directors' shareholdings between 1 January 2004 and 17 February 2004.

106,349,503 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 following sections of the above report have been audited: the sections headed "Emoluments", "Long-term incentive plan", "Pensions", "Share option schemes" and "Directors' shareholdings".

Approved by the Board of Directors and signed on their behalf

**Marco Pagni**  
Company Secretary  
24 February 2004