

## 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 (Committee Chairman), Neil Cross, Adrian Loader and Patrick Ponsolle. Jeff Harris, Ian Meakins and Stefano Pessina attend meetings by invitation in advisory capacities but are not present when their own remuneration is discussed.

### Remuneration policy

The aim of the Group's remuneration policy is 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, aligning 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 Code 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, non-cash benefits, annual performance bonus, long-term incentive plan benefits, share options and pension benefits, all of which are detailed below. The executive Directors' remuneration is reviewed at the end of each calendar year. No Director is permitted to vote in respect of their own remuneration.

### Service contracts

Ian Meakins, George Fairweather, Per Utnegaard and Steve Duncan are employed under contracts that can be terminated by either party with notice of 12 months. Stefano Pessina and Ornella Barra have service contracts 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 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.

Geoff Cooper resigned from the Board and from the role of Deputy Chief Executive on 29 July 2004 when the decision to appoint Ian Meakins was finalised and he left the Company at the end of the year. His emoluments for the year as a Director and employee and his payment for loss of office are set out in the emoluments section of this report. The principle of mitigation was not applicable as his departure was not as a result of unsatisfactory performance.

The dates of the executive Directors' current service contracts are:

Director	Contract date
I. K. Meakins	16 September 2004
S. Pessina	10 December 2002
G. R. Fairweather	28 March 2002
O. Barra	10 December 2002
P. Utnegaard	11 February 2005
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 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.

Ian Meakins is a non-executive Director of mmO<sub>2</sub>, and retained fees for that appointment of £4,167 during the period he was Chief Executive. Stefano Pessina is a non-executive Director of Galenica, an associate company. He waived his entitlement to fees as part of the agreement with Galenica on reciprocal board representation. George Fairweather is a non-executive Director of Mitchells & Butlers and retained fees paid of £49,500 in 2004 for that appointment. Per Utnegaard was appointed a non-executive Director of the Davis Service Group in January 2005 and will retain fees payable. Geoff Cooper was appointed non-executive Director of Abbey National in January 2004 and served until 1 December 2004. He retained fees paid of £52,000 in 2004 for that appointment.

Jeff Harris is a Director of Andraee-Noris Zahn, an associate company, the fees payable being retained by the Company.

### 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 Group. For determining basic salary in 2004 and 2005, the committee appointed and received advice from PricewaterhouseCoopers (PwC) – Monks Partnership. PwC provide remuneration and other consultancy services directly to the Company. The amount paid to each Director in 2004 is detailed in the emoluments section on page 47.

Following a report from PwC in December 2004, the remuneration committee reviewed salaries payable to the executive Directors based on market related base salary data from a comparator group of companies consisting of 20 companies from the 25 smallest FTSE 100 companies by market capitalisation (excluding financial companies) and 20 companies from the 25 largest FTSE 250 companies by market capitalisation (excluding financial companies). Salary increases, which are effective from 1 January 2005, were based on this data after taking account of the performance of each Director.

Executive Directors' basic salaries at 1 January 2005 are as follows:

Director	£
I. K. Meakins	625,000
S. Pessina	485,000
G. R. Fairweather	375,000
O. Barra	310,000
P. Utnegaard	315,000
S. W. J. Duncan	315,000

### Benefits

Benefits available to executive Directors relate to the provision of company cars or a car allowance, private medical insurance, and, for Stefano Pessina and Ornella Barra, the cost of travel to and from work, accommodation and subsistence while working for the Group in the UK. The provision of these benefits reflects market practice and do not relate to performance. The value of these benefits for each Director in 2004, including expenses chargeable to UK income tax, are detailed in the emoluments section on page 47. Where a Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

### Salary supplements

Salary supplements include cash payments and long-term financial provision.

### Annual performance bonuses

The annual performance bonus scheme rewards executive Directors for the Group and individual divisions for which they are responsible for achieving their budgeted performance, after the cost of bonuses. Payments also take into account personal performance. The maximum bonus an executive Director could receive in 2004 was 50% of their basic salary. In 2004 the budgeted performance was based on the challenging but achievable 2004 budget for earnings, before amortisation of intangible assets and exceptional items, at constant exchange rates, agreed by the Board at the end of the previous year. Depending upon responsibilities, a bonus of between 5% and 15% was payable for performance of 100% of the Group or 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° appraisal process and determined by the remuneration committee. Depending on responsibilities, a bonus of up to 15% was payable based on this appraisal.

The Committee has agreed that the maximum bonus opportunity for 2005 will be increased from 50% of base salary to 100%. The Committee is satisfied that the new level is commensurate with that in companies of a similar size and complexity to Alliance UniChem. Depending on the responsibilities of an individual Director, 80% of the bonus will be based on Group and/or divisional financial results and 20% of the bonus will be based on personal performance. A target bonus of 40% of base salary will be paid for the achievement of a stretching target which exceeds budget. Bonuses will start to accrue on the achievement of 96% of the stretch target and the maximum bonus of 80% will be paid for achieving 104% of target.

Ian Meakins earned a bonus payment of £300,000 in 2004 to compensate him for the lost opportunity to earn a bonus from his previous employer in 2004. This bonus was based on Group performance targets.

The amounts earned by each Director are detailed in the emoluments section on page 47.

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### Non-executive Directors

All non-executive Directors were entitled to a basic fee of £35,000 in 2004. Jeff Harris, as non-executive Chairman, earned a total fee of £250,000 per annum. Ken Clarke (Deputy Chairman and senior independent non-executive Director) earned a total fee of £125,000 per annum, which included £5,000 per annum for chairing the remuneration committee. Neil Cross received a total fee of £46,000, which included a fee of £1,000 for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited for one month, (the fee is based on £10,000 per annum) and £10,000 per annum for chairing and serving on the audit committee. Other members of the audit committee were paid an additional fee of £5,000 per annum. Manfred Stach was unable to attend any audit committee meetings in 2004 due to other commitments entered into before his appointment to the Board, and, as a result, he waived his 2004 audit committee fee of £5,000. 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 Board reviewed fees payable to non-executive Directors in January 2005, based on advice received by the executive Directors from PwC, which compared the level of fees paid by a comparator group of companies consisting of 20 companies from the 25 smallest FTSE 100 companies by market capitalisation (excluding financial companies) and 20 companies from the 25 largest FTSE 250 companies by market capitalisation (excluding financial companies). No changes were made to the fees payable to Jeff Harris and Ken Clarke. The basic fees payable to the other non-executive Directors were increased by £10,000 per annum with effect from 1 January 2005.

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 is eligible to receive share options in connection with the 2002 allocation made under the long-term incentive plan when he was an executive Director. 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 date and the date of last re-appointment at an AGM for the non-executive Directors are as follows:

Director	Initial appointment date as a non-executive Director	Date of last re-appointment at an AGM
J. F. Harris	8 April 2003	22 April 2004
K. H. Clarke	9 September 1997	22 April 2004
N. E. Cross	17 February 1997	22 May 2002
W. A. Loader	24 September 2003	22 April 2004
P. Ponsolle	30 December 1997	21 May 2003
P. Scaroni	10 December 2002	21 May 2003
M. Stach	8 December 2003	22 April 2004
E. Jornod	26 January 2000	21 May 2003

## Emoluments

The emoluments of the Directors for the financial year ended 31 December 2004 were:

Director	Salaries and fees £'000	Benefits £'000	Salary supplement £'000	Bonus payments £'000	Termination payment £'000	Total emoluments excluding pensions	
						2004 £'000	2003 £'000
<b>Executive Directors</b>							
I. K. Meakins <sup>(1)</sup>	55	50	20	300	–	425	–
S. Pessina	450	54	–	225	–	729	579
G. R. Fairweather	350	23	57	175	–	605	517
O. Barra <sup>(2)</sup>	290	19	–	145	–	454	383
P. Utnegaard <sup>(3)</sup>	310	53	–	109	–	472	123
S. W. J. Duncan <sup>(4)</sup>	280	20	–	140	–	440	372
	1,735	219	77	1,094	–	3,125	1,974
<b>Former Director</b>							
G.I. Cooper <sup>(5)</sup>	400	23	69	200	801	1,493	548
	2,135	242	146	1,294	801	4,618	2,522
<b>Non-executive Directors</b>							
J. F. Harris <sup>(6)</sup>	250	–	–	–	–	250	342
K. H. Clarke	125	–	–	–	–	125	125
N. E. Cross	46	–	–	–	–	46	45
W. A. Loader <sup>(7)</sup>	40	–	–	–	–	40	11
P. Ponsolle	40	–	–	–	–	40	40
P. Scaroni	40	–	–	–	–	40	40
M. Stach <sup>(8)</sup>	35	–	–	–	–	35	2
C. J. S. Berretti <sup>(9)</sup>	15	–	–	–	–	15	35
	591	–	–	–	–	591	640
<b>Total</b>	<b>2,726</b>	<b>242</b>	<b>146</b>	<b>1,294</b>	<b>801</b>	<b>5,209</b>	<b>3,162</b>

(1) Ian Meakins was appointed as Chief Executive on 1 December 2004. Details of his principal terms and conditions are as follows: Basic salary – £600,000 per annum, increased to £625,000 per annum with effect from 1 January 2005. Taxable benefits includes a car, a car allowance, medical insurance and professional fees in connection with his appointment. Annual performance bonus – up to a maximum of 50% of annual basic salary for 2004, increasing to a maximum of 100% of basic salary for 2005, subject to both Group and individual performance targets. Pension – none. Long-term financial provision – £240,000 per annum. Share Incentives – received a 2004 allocation of £400,000 (2/3 of annual basic salary) under the Company's long-term incentive plan which is subject to the performance conditions set out on page 49. He was granted an option to acquire 119,946 shares in the Company for £1 in total, details of which are set out on pages 52 and 53.

(2) highest paid Director in 2004 when gains on exercise of share options and awards under LTIP are taken into account.

(3) prior year emoluments include only four months as an executive Director.

(4) prior year emoluments include only 11 months as an executive Director.

(5) resigned from the Board in July 2004 and left the Company on 31 December 2004. Emoluments for the full year are disclosed. He received compensation for the termination of his employment and loss of office. This compensation covered his salary over his contractual notice period, a non-compete payment, a severance payment, an outplacement payment and legal fees.

(6) retired as an executive in April 2003. Prior year emoluments include three months as an executive Director and nine months as a non-executive Director.

(7) prior year emoluments include only four months as a non-executive Director.

(8) prior year emoluments include only one month as a non-executive Director – audit committee fees of £5,000 were waived.

(9) retired April 2004.

Etienne Jornod waived his entitlement to a Director's fee of £35,000 (2003 £35,000), as part of the agreement with Galenica on reciprocal board representation.

Fees and benefits totalling £66,000 (2003 £141,000) were paid to Barry Andrews, a former Director, of which £40,000 (2003 £40,000) was for acting as a non-executive Chairman of Moss Pharmacy. In addition he received £25,000 (2003 £100,000) for acting as Managing Director of GaleniCare, an associate business, until 31 March 2004, which was reimbursed by GaleniCare.

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### 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 that the performance period starts. The Directors' allocations outstanding at 24 February 2005 are:

Director	2002 allocation maximum amount £	2003 allocation maximum amount £	2004 allocation maximum amount £	2005 allocation maximum amount £
J. F. Harris	308,666	–	–	–
I. K. Meakins <sup>(1)</sup>	–	–	400,000	625,000
S. Pessina	216,666	233,333	300,000	485,000
G. R. Fairweather	155,775	220,000	233,333	375,000
O. Barra	160,666	180,000	193,333	310,000
P. Utnegaard	–	–	206,666	315,000
S. W. J. Duncan	–	156,667	186,666	315,000

(1) Ian Meakins received a 2004 allocation of £400,000 on an exceptional basis to compensate him for the lost opportunity to receive financial benefit from his previous employer.

The performance periods for the allocations are:

	2002 allocation	2003 allocation	2004 allocation	2005 allocation
Period start	1 January 2002	1 January 2003	1 January 2004	1 January 2005
Period end	31 December 2004	31 December 2005	31 December 2006	31 December 2007

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 earnings per share performance. Earnings per share are defined as diluted earnings per share before amortisation of intangible assets and exceptional items 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 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 (50th percentile)	12.5%
	for every 1 percentile above median up to upper quartile (75th percentile)	+1.5% 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, 2004 and 2005 allocations, the total shareholder return measure is compared with the performance of companies in the FTSE 100. For the 2003 and 2004 allocations, the EPS targets are:

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%

To bring the level of awards into line with market practice, the committee has raised the 2005 allocation to 100% of basic salary. The committee considers that the 2004 TSR targets for vesting remain challenging. The EPS targets were raised in 2003. The committee has agreed to leave the target at which awards begin to vest at RPI-x +5% p.a. but increase the target at which the full EPS element vests from RPI-x +6% to RPI-x +7% p.a. Given that EPS growth for the 2005 allocation will be measured in accordance with International Financial Reporting Standards which may affect EPS growth, the Committee considers that the EPS targets it has set are challenging for the 2005 allocations.

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.

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During 2004, awards were made on allocations with the performance period 1 January 2001 to 31 December 2003. During the performance period, the Company was in the 63rd 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 82% of the allocations were made and converted into share options at 562 pence per share, with the exception of Jeff Harris who was only entitled to 41% of the allocation, reflecting his period as an executive Director.

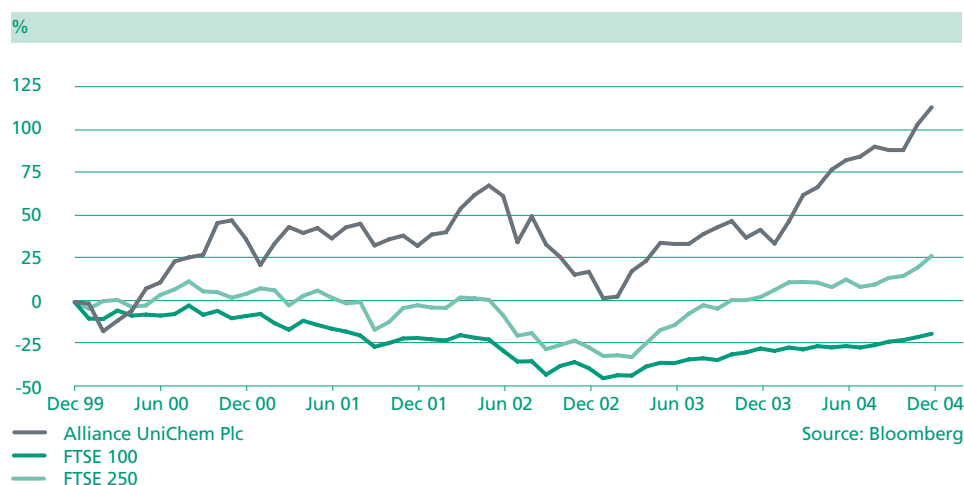
Director	Allocation £	Award nominal value £	Award share options number
J. F. Harris	299,667	122,863	21,862
S. Pessina	196,167	160,857	28,622
O. Barra	153,333	125,733	22,372
G. I. Cooper	189,000	154,980	27,577

The awards are further detailed in the table of share options and long-term incentive awards.

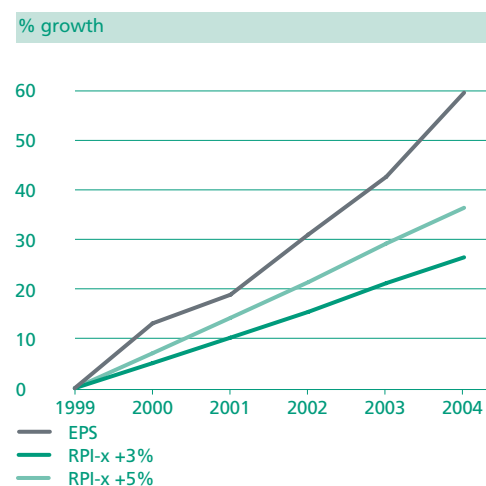
Following the end of the performance period for the 2002 allocation detailed above, the committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 86.8% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 66.2 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 2004 were:



The increase in earnings per share over the five years ending 31 December 2004 compared to RPI-x +3% and RPI-x +5% over the same period is:



### 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 23 to the financial statements.

Options granted under the discretionary 1997 Share Option Scheme since May 2003 have no retesting of performance measures and have a fixed performance period being a defined three year period made up of three consecutive accounting periods. This period commences on 1 January of the year of the award. The performance target is that the earnings per share growth of the Company must be greater than the increase of RPI-x +4% compound over the performance period. Earnings per share are defined as the diluted earnings per share before amortisation of intangible assets and exceptional items over the defined accounting periods. RPI-x is defined as the index of retail prices for all items excluding mortgage payments as published by the UK Government.

For options granted prior to May 2003 there is retesting of the performance measures where the earnings per share growth of the Company must be greater than the increase of RPI-x +4% compound at any time during the exercise period. Earnings per share are defined as the diluted earnings per share before amortisation of intangible assets and exceptional items over the defined accounting periods. RPI-x is defined as the index of retail prices for all items excluding mortgage payments as published by the UK Government. The performance conditions for options granted up to and including 2001 have been satisfied.

There are now no outstanding options under the discretionary Executive Share Option Scheme 1990 and no further awards will be made under this Scheme.

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## Share options and long-term incentive awards

The following movements in share options and long-term incentive scheme awards occurred during the year.

Director	Type	1 January 2004	Granted in the year	Exercised in the year	31 December 2004	Exercise price £	Market price on exercise £	Normally exercisable from
J. F. Harris	d	59,957	–	59,957	–	0.0001	5.410	17.04.2003 to 16.04.2004
	d	–	21,862	21,862	–	0.0001	6.587	20.03.2004 to 19.09.2004
		59,957	21,862	81,819	–			
I. K. Meakins	e	–	119,946	–	<b>119,946</b>	0.0001		01.12.2005 to 01.12.2014
		–	119,946	–	<b>119,946</b>			
S. Pessina	d	–	28,622	28,622	–	0.0001	7.202	20.03.2004 to 19.03.2014
		–	28,622	28,622	–			
G. R. Fairweather	a	2,804	–	–	<b>2,804</b>	3.3700		01.07.2006 to 31.12.2006
		2,804	–	–	<b>2,804</b>			
O. Barra	c	186,263	–	186,263	–	4.2950	6.812	07.05.2001 to 06.05.2005
	c	63,737	–	63,737	–	4.3500	6.812	27.05.2002 to 26.05.2006
	d	–	22,372	22,372	–	0.0001	7.202	20.03.2004 to 19.03.2014
		250,000	22,372	272,372	–			
S. W. J. Duncan	a	–	3,715	–	<b>3,715</b>	4.4000		01.07.2009 to 31.12.2009
	c	15,000	–	15,000	–	5.9200	7.470	06.04.2004 to 05.04.2008
	c	20,000	–	–	<b>20,000</b>	6.0900		09.04.2005 to 08.04.2009
		35,000	3,715	15,000	<b>23,715</b>			
G. I. Cooper	a	3,644	–	–	<b>3,644</b>	4.6300		01.01.2005 to 30.06.2005
	b	372	–	372	–	2.6900	5.410	18.10.1998 to 17.10.2005
	c	36,872	–	36,872	–	2.6850	5.410	13.06.2000 to 12.06.2004
	c	45,000	–	–	<b>45,000</b>	4.2950		07.05.2001 to 06.05.2005
	d	9,852	–	9,852	–	0.0001	5.410	19.03.2002 to 18.03.2012
	d	37,830	–	37,830	–	0.0001	5.410	17.04.2003 to 16.04.2013
	d	–	27,577	–	<b>27,577</b>	0.0001		20.03.2004 to 31.12.2005
	133,570	27,577	84,926	<b>76,221</b>				
<b>Total</b>		<b>481,331</b>	<b>224,094</b>	<b>482,739</b>	<b>222,686</b>			

a = Savings Related Share Option Scheme 1990

b = Discretionary Executive Share Option Scheme 1990

c = Discretionary 1997 Share Option Scheme

d = Long-term incentive plan 1998

e = Ian Meakins share incentive plan

The aggregate gains before tax made by Directors on the exercise of share options was £750,482 (2003 £294,964) and on the exercise of long-term incentive plan awards £1,093,585 (2003 £497,344)

There were no changes to the options of Directors between 1 January 2005 and 24 February 2005.

The mid-market price of shares of the Company ranged during 2004 between 758.5 pence on 30 December and 488.0 pence on 3 February and at 31 December was 754.5 pence.

### Ian Meakins – share incentive plan

In order to recruit Ian Meakins, it was necessary to compensate him for the loss of potential long-term incentive benefits from his previous employer. In accordance with his service agreement, he was granted an option to acquire 119,946 shares in the Company (for £1 in total) on 17 December 2004 (the "Initial Award"). The shares comprising the Initial Award, which are held by the Alliance UniChem Employee Share Trust, are exercisable from 1 December 2005 to 1 December 2014. The Company will pay Ian Meakins annually the equivalent of the total gross dividend on these shares until they are exercised. If Ian Meakins resigns, or his contract is terminated by the Company for gross misconduct before 1 December 2005, the Initial Award will lapse and he will lose any right to the shares included in that award. If before 1 December 2005, he ceases to be employed by the Company for any other reason, including change of control, then the Initial Award will become exercisable on termination of his employment.

In accordance with his service agreement, Ian Meakins will also be granted a further option to acquire 153,571 shares in the Company (for £1 in total) at the end of March 2008 (the "Matching Award"), matching the 119,946 shares of the Initial Award plus a personal investment of 33,625 shares which he purchased on 17 December 2004. The entitlement to receive all or any percentage of the Matching Award is subject to the performance conditions set out below:

- not selling or disposing the shares comprised in the Initial Award at any time before the end of the Performance Period;
- maintaining the personal investment of 33,625 shares in the Company; and
- remaining employed by the Company during the entire Performance Period.

The percentage of the Matching Award that Ian Meakins will receive is also subject to the performance condition described in the table below.

Performance measure	Company TSR performance against FTSE 100	% of total possible matched grant
Total shareholder return <sup>(1)</sup>	at or below median (50th percentile)	0.0%
	for every 1 percentile above median	
	up to 89th percentile	+2.0%
	at or above 90th percentile	100.0%

(1) 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 three year performance period to 31 December 2007.

In certain circumstances, relating principally to a change of control of the Company or the termination of his employment during the Performance Period for the Matched Grant, Ian Meakins will be entitled, subject always to the performance conditions being met, to a reduced percentage of the matching award.

#### Directors' shareholdings

The beneficial interests of the Directors in office at 31 December 2004 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 2004	Ordinary shares 1 January 2004*
J. F. Harris	141,307	229,050
I. K. Meakins	33,625	–
S. Pessina	107,446,101	106,415,034
G. R. Fairweather	2,000	2,000
O. Barra	325,102	51,207
P. Utnegaard	–	–
S. W. J. Duncan	10,122	8,112
K. H. Clarke	6,761	6,566
N. E. Cross	5,000	5,000
W. A. Loader	5,998	–
P. Ponsolle	500	500
P. Scaroni	–	–
M. Stach	–	–
E. Jornod	–	–
<b>Total</b>	<b>107,976,516</b>	<b>106,717,469</b>

\*or at date of appointment, if later.

There were no changes to Directors' shareholdings between 1 January 2005 and 21 February 2005.

107,350,000 shares of the interest of Stefano Pessina are held by Alliance Santé Participation S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participation S.A., which is registered in Luxembourg, and its 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.

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## 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.

## Pensions

Pension benefits earned by the Directors during 2004 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	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
					2004 £'000	2003 £'000	2004 £'000	2003 £'000	
J. F. Harris	56	–	10	363	–	–	<b>7,580</b>	6,900	680
G. R. Fairweather	47	3	4	10	<b>82</b>	49	<b>86</b>	46	25
O. Barra	51	–	–	–	<b>81</b>	81	–	–	–
S. W. J. Duncan <sup>(1)</sup>	53	27	30	140	–	–	<b>1,869</b>	1,272	583
G. I. Cooper <sup>(2)</sup>	50	3	4	37	<b>99</b>	89	<b>410</b>	315	81

(1) existing member of pension scheme on appointment in January 2003

(2) resigned as a Director in July 2004

Jeff Harris receives an unreduced pension from age 55, based on arrangements entered into with the Company in 1992. The agreed pension arising was 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 preceding three years. £20,000 per annum of this pension is unfunded and is paid directly by the Company.

Ian Meakins has no pension benefit, but receives a cash payment for long-term financial provision at the rate of £240,000 per annum. This payment is disclosed under salary supplements in the emoluments table. Stefano Pessina has no pension benefits. Although he remains eligible, Per Utnegaard's membership of the Company's pension scheme is still under discussion.

George Fairweather, Steve Duncan and Geoff Cooper are members of the defined benefit section of the Company's pension scheme. The benefits of the pension scheme, subject to statutory limits (including the earnings cap), are as follows:

- normal retirement age of 60;
- contributions are at the rate of 5% of basic salary;
- a lump sum of 4 x basic salary and a spouse's pension of 50% of prospective member's pension are payable on death in service;
- the statutory minimum pension and accumulated contributions are payable on death after leaving service but before retirement;
- all pensions in payment increase in line with the Scheme Rules; and
- no allowance is made for any discretionary increases within transfer values.

In addition, George Fairweather and Geoff Cooper are members of the Alliance UniChem 1993 Pension Scheme, which is a funded unapproved retirement benefit scheme. This is a money purchase arrangement which aims to provide limited targeted benefits on basic salary in excess of the earnings cap.

Ornella Barra is a member of the unapproved International Pension Scheme, which is a defined contribution arrangement.

The Company is to undertake a review of the funding of the two unapproved pension schemes during 2005.

## Audit

The following sections of the above report form part of the financial statements on which the auditors have expressed their opinion on page 55: "Emoluments", "Long-term incentive plan", "Share option schemes", "Ian Meakins' share incentive plan", "Directors' shareholdings" and "Pensions".

Approved by the Board of Directors and signed on their behalf:

**Marco Pagni**

Company Secretary  
24 February 2005