

Board report on remuneration

The remuneration committee (“the committee”) determines the remuneration of the Chairman and the executive Directors and makes recommendations to the Board for any changes to the terms and conditions of employment of executive Directors. The committee consists of three independent non-executive Directors: Kenneth Clarke (committee Chairman), Neil Cross, and Adrian Loader. Patrick Ponsolle resigned from the committee in July 2005, having up until that date been a member of three Board committees. Paolo Scaroni, 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 attract, retain and motivate the highest calibre of executive Directors and senior executives, aligning the rewards of those individuals with the interests of shareholders by linking a substantial 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 of 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, 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, and Steve Duncan are employed under service 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 of current basic salary in lieu of the required notice period to terminate a service contract. Were the situation to arise, the Company intends to apply the principle of mitigation to any payment on termination of a Directors’ service contract, and is contractually entitled to apply this principle in the case of Ian Meakins.

Per Utnegaard resigned from the Board on 17 March 2005. 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
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.

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 2005 for that appointment. Ian Meakins was a non-executive Director of mmO2 until March 2005, for which he retained fees paid of £12,500 in 2005 for that appointment.

Jeff Harris, who retired from the Board in April 2005, is a member of the supervisory board of Andreae-Noris Zahn, an associate 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 2005 and 2006, the committee appointed and received advice from PricewaterhouseCoopers (PwC). PwC provide remuneration and other consultancy services directly to the Company. The amount paid to each Director in 2005 is detailed in the emoluments section on page 56.

Following a report from PwC in December 2005, 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) (the "Comparator Group"). Salary increases, which are effective from 1 January 2006, were based on this data after taking account of the performance of each Director.

Executive Directors' basic salaries at 1 January 2006 are as follows:

Director	£
I. K. Meakins	670,000
S. Pessina	510,000
G. R. Fairweather	390,000
O. Barra	330,000
S. W. J. Duncan	330,000

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 2005, including expenses chargeable to UK income tax, are detailed in the emoluments section on page 56. 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 performance of the Group and of the individual businesses for which they are responsible for achieving their budgeted performance, after the cost of bonuses. Payments also take into account personal performance. To bring the level of bonus into line with market practice, the committee, following consultation with the Company's major shareholders, raised the maximum bonus an executive Director could receive from a maximum of 50% of basic salary to a maximum of 100% of basic salary from the beginning of 2005. The committee is satisfied that the new level is commensurate with that in companies of a similar size and complexity. 80% of the bonus was based on adjusted profit for the year attributable to equity shareholders (which is after tax and excludes exceptional items and IAS 39 timing differences) and 20% was based on personal performance. A potential target bonus of 40% of base salary was payable for the achievement of the 2005 budget which the committee considered as challenging but achievable. For those executive Directors with specific business responsibilities (Steve Duncan and Ornella Barra) half of their financial performance target was based on the results of the Group as a whole and half on the combined performance of the businesses for which they have responsibility. Bonuses started to accrue on the achievement of 96% of the budget and the maximum profit related bonus of 80% would have been payable for achieving 104% of budget. Personal performance was based on a 360° appraisal process. Following Per Utnegaard's departure from the Company in April 2005, Ian Meakins assumed direct responsibility for the wholesale businesses in the UK and France, therefore half of his financial performance was based on Group performance and half on the combined performance of the businesses for which he had direct responsibility.

The amounts actually earned by each Director are detailed in the emoluments section on page 56.

Non-executive Directors

All non-executive Directors were entitled to a basic fee of £45,000 in 2005. The Board reviewed fees payable to non-executive Directors in January 2005, based on advice from PwC, which compared the level of fees paid by the Comparator Group. No changes were made to the fees payable to Jeff Harris and Kenneth Clarke. The basic fees payable to the other non-executive Directors were increased by £10,000 per annum with effect from 1 January 2005. Jeff Harris, who retired from the Board and as non-executive Chairman on 22 April 2005, earned a fee of £83,333 up until the date of his retirement. Based on market data provided by PwC and Spencer Stuart, the remuneration committee approved Paolo Scaroni's fee of £175,000 per annum for acting as Chairman of the Company. Kenneth 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 £65,000, which included a fee of £10,000 per annum for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited 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.

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 was eligible to receive share options in connection with the 2002 LTIP allocation made under the long-term incentive plan when he was an executive Director. He was entitled to 25% of the award which he exercised during the year, details of which are set out on page 59.

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
K. H. Clarke	9 September 1997	22 April 2004
N. E. Cross	17 February 1997	22 April 2005
W. A. Loader	24 September 2003	22 April 2004
P. Ponsolle	30 December 1997	21 May 2003
P. Scaroni	10 December 2002	22 April 2005
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 2005 were:

Director	Salaries and fees £'000	Benefits £'000	Salary supplement £'000	Bonus payments £'000	Termination payment £'000	Total emoluments excluding pensions	
						2005 £'000	2004 £'000
Executive Directors							
I. K. Meakins ⁽¹⁾	625	24	263	266	–	1,178	425
S. Pessina	485	54	–	315	–	854	729
G. R. Fairweather	375	22	48	225	–	670	605
O. Barra	310	19	–	256	–	585	454
S. W. J. Duncan	315	20	–	260	–	595	440
	2,110	139	311	1,322	–	3,882	2,653
Former Directors							
P. Utnegaard ⁽²⁾	105	7	–	58	454	624	472
J. F. Harris ⁽³⁾	105	–	–	–	–	105	250
	210	7	–	58	454	729	722
Non-executive Directors							
P. Scaroni ⁽⁴⁾	136	–	–	–	–	136	40
K. H. Clarke	125	–	–	–	–	125	125
N. E. Cross ⁽⁵⁾	65	–	–	–	–	65	46
W. A. Loader	50	–	–	–	–	50	40
P. Ponsolle	50	–	–	–	–	50	40
M. Stach	50	–	–	–	–	50	35
E. Jornod ⁽⁶⁾	–	–	–	–	–	–	–
	476	–	–	–	–	476	326
Total	2,796	146	311	1,380	454	5,087	3,701

(1) Highest paid Director in 2005. Salary supplement comprises long-term financial provision of £240,000 and £23,000 (which is equivalent to the total gross dividend on the 119,946 shares (the initial award) held by the Alliance UniChem Employee Share Trust for the Ian Meakins – share incentive plan, details of which are set out on page 60).

(2) Resigned from the Board on 17 March 2005 and left the Company on 30 April 2005. Received payment on termination of his employment. This payment covered basic salary for his contractual notice period, a severance payment and legal fees. Received a prorated 2005 bonus payment for the period up to the date he left the Company.

(3) Resigned from the Board and as Chairman on 22 April 2005. Total emoluments for 2005 include fees of £21,333 as a member of the supervisory board of Andrae-Noris Zahn (ANZAG), an associate company.

(4) Appointed as Chairman on 22 April 2005.

(5) Includes a fee of £10,000 per annum for chairing and serving on the Board of Alliance UniChem Pension Trustee Limited and £10,000 for chairing the audit committee.

(6) Etienne Jornod waived his entitlement to a Director's fee of £45,000 (2004 £35,000), as part of the agreement with Galenica on reciprocal board representation.

(7) Fees and benefits totalling £41,210 (2004 £66,000) were paid to Barry Andrews, a former Director, of which £40,000 (2004 £40,000) was for acting as a non-executive Chairman of Alliance Pharmacy (formerly Moss Pharmacy).

(8) In accordance with an agreement dated 29 July 2004, benefits totalling £11,000 (2004 £23,000) were paid to Geoff Cooper a former Director.

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 28 February 2006 are:

Director	2003 allocation maximum amount £	2004 allocation maximum amount £	2005 allocation maximum amount £
I. K. Meakins	–	400,000	625,000
S. Pessina	233,333	300,000	485,000
G. R. Fairweather	220,000	233,333	375,000
O. Barra	180,000	193,333	310,000
S. W. J. Duncan	156,667	186,666	315,000

The performance periods for the allocations are:

	2003 allocation	2004 allocation	2005 allocation
Period start	1 January 2003	1 January 2004	1 January 2005
Period end	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 the period when the Group reported under UK GAAP and adjusted diluted earnings per share (which excludes exceptional items and IAS 39 timing differences) for the periods when the Group reported under IFRS, in both cases for full accounting years ("Earnings Per Share"). RPI-x is the index of retail prices for all items excluding mortgage payments as published by the UK Government ("RPI"). The performance against RPI-x is calculated on a per annum compound basis.

The total shareholder return measure for all outstanding allocations is compared with the performance of companies in the FTSE 100. For the 2003 and 2004 allocations, the TSR and EPS targets 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 +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, following consultation with the Company's major shareholders, raised the allocation from 66.66% to 100% of basic salary for 2005 onwards.

In anticipation of the proposed merger of the Company with Boots, the remuneration committee has delayed the 2006 allocations under the long term incentive plan to the executive Directors in order to facilitate the alignment of the long-term remuneration arrangements of the executive Directors of the combined business following the merger.

For the 2005 allocation, the TSR and EPS targets are:

Performance measure	Achievement	% awarded
Total shareholder return	below median	–
	at median (50%)	12.5%
	for every 1% above median up to upper quartile (75%)	+1.5% 50.0%
Earnings per share	below RPI-x +5%	–
	at RPI-x +5%	5.0%
	for every 0.1% above RPI-x +5% up to RPI-x +7%	+2.25% 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 2005, awards were made on allocations for the performance period 1 January 2002 to 31 December 2004. During the performance period, the Company was in the 66th percentile of the comparator group on total shareholder return, which was the FTSE 250 for the 2002 allocation, and the increase in earnings per share was in excess of RPI-x +4%. On this basis, awards equivalent to 86.8% of the allocations were made and converted into share options at 753.5 pence and 823.5 pence per share, with the exception of Jeff Harris who was only entitled to 25% of the allocation, reflecting his period as an executive Director.

Director	Allocation £	Award nominal value £	Option price pence	Award share options Number
S. Pessina	216,666	188,066	753.5	24,959
G. R. Fairweather	155,775	135,213	823.5	16,419
O. Barra	160,666	139,458	823.5	16,934
J. F. Harris ⁽¹⁾	308,666	66,979	753.5	8,889
G. I. Cooper ⁽²⁾	206,666	179,386	823.5	21,783

(1) Resigned from the Board and as Chairman of the Company on 22 April 2005.

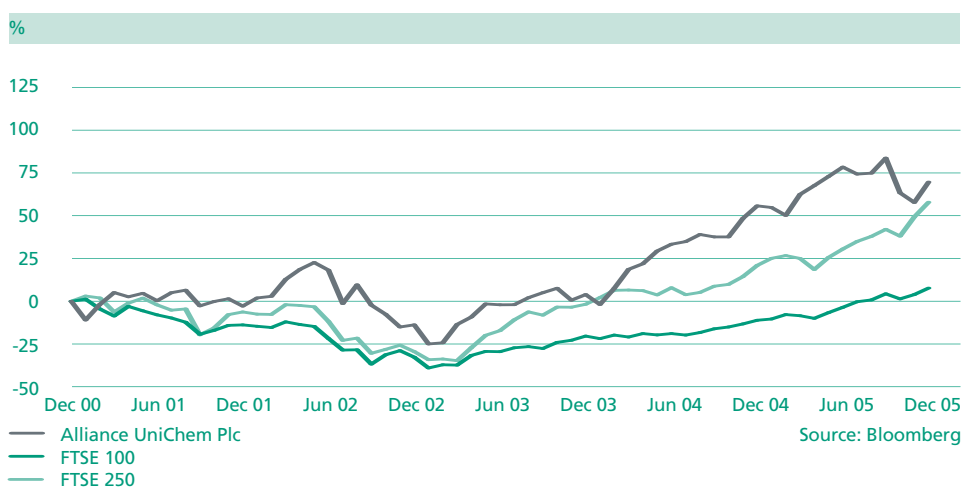
(2) Resigned from the Board in July 2004 and left the Company on 31 December 2004. In accordance with an agreement between the Company and G. I. Cooper, Mr Cooper exercised an option over 27,577 ordinary shares (at an option price of £1 in total) in the Company which had been awarded to him in 2004 on allocations for the performance period 1 January 2001 to 31 December 2003. The option was normally exercisable from 31 December 2004 to 31 December 2005. The market price of the Company's shares on the date of exercise was 820 pence.

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 2003 allocation detailed above, the committee has recommended to the trustees of the 1992 Employee Trust that awards equivalent to 90.1% of the allocation are made. Their basis for doing this is that during the performance period, the Company was in the 68.4th percentile of the comparator group on shareholder return and the increase in earnings per share was in excess of RPI-x +6%.

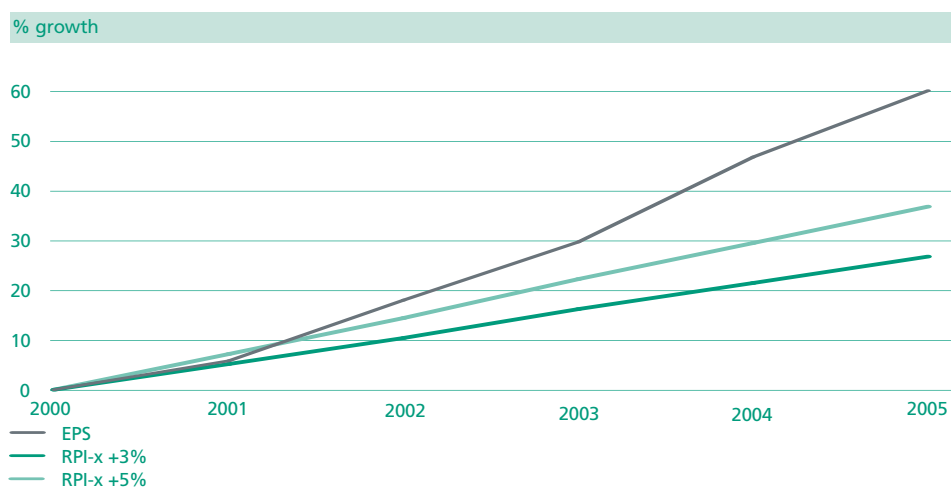
Performance

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 ended 31 December 2005 were:



The increase in published earnings per share over the five years ending 31 December 2005 compared to RPI-x +3% and RPI-x +5% over the same period is:

The EPS figures from 2000 to 2004 were calculated under UK GAAP. The EPS figure for 2005 was calculated under IFRS.



Share option schemes

In addition to the long-term incentive plan, the Company operates a discretionary and a savings related share option scheme. The Directors may participate in the savings related share option scheme but do not participate in the discretionary scheme. Details of outstanding options under these schemes are shown in note 34 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.

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. The performance conditions for options granted up to and including 2002 have been satisfied.

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 2005	Granted in the year	Exercised in the year	31 December 2005	Exercise price £	Market price on exercise £	Normally exercisable from
I. K. Meakins	a	119,946	–	–	119,946	0.0001		01.12.2005 to 01.12.2014
S. Pessina	d	–	24,959	24,959	–	0.0001	7.78	26.10.2005 to 25.10.2015
G. R. Fairweather	b	2,804	–	–	2,804	3.3700		01.07.2006 to 31.12.2006
	d	–	16,419	–	16,419	0.0001		16.05.2005 to 15.05.2015
		2,804	16,419	–	19,223			
O. Barra	d	–	16,934	16,934	–	0.0001	8.19	16.05.2005 to 15.05.2015
S. W. J. Duncan	b	3,715	–	–	3,715	4.4000		01.07.2009 to 31.12.2009
	c	20,000	–	20,000	–	6.0900	8.06	09.04.2005 to 08.04.2009
		23,715	–	20,000	3,715			
J. F. Harris	d	–	8,889	–	8,889	0.0001		26.10.2005 to 25.04.2006
Total		146,465	67,201	61,893	151,773			

a = Ian Meakins Share Incentive Plan.

b = Savings Related Share Option Scheme 1990.

c = Discretionary 1997 Share Option Scheme.

d = Long-term incentive plan 1998.

The aggregate gains before tax made by Directors on the exercise of share options during 2005 was £39,400 (2004 £750,482) and on the exercise of long-term incentive plan awards £332,868 (2004 £1,093,585).

There were no changes to the options of Directors between 1 January 2006 and 28 February 2006.

The mid-market price of shares of the Company ranged during 2005 between 910 pence on 3 October and 689 pence on 25 February and at 31 December was 800.5 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. He has waived any dividend entitlement in consideration of this payment.

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 ⁽¹⁾	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 2005 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 2005 Number	Ordinary shares 1 January 2005 Number
P. Scaroni	13,000	–
I. K. Meakins	33,625	33,625
S. Pessina	108,472,659	107,446,101
G. R. Fairweather	2,000	2,000
O. Barra	347,445	325,102
S. W. J. Duncan	10,261	10,122
K. H. Clarke	6,873	6,761
N. E. Cross	5,000	5,000
W. A. Loader	6,126	5,998
P. Ponsolle	500	500
M. Stach	–	–
E. Jornod	1,150	–
Total	108,898,639	107,835,209

There were no changes to Directors' shareholdings between 1 January 2006 and 28 February 2006.

108,350,000 shares of the interest of Stefano Pessina are held by Alliance Santé Participations S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participations 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.

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 2005 were:

Director	Age at 31 December 2005	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/ (decrease) in transfer value during the year net of Directors' contributions £'000
					2005	2004	2005	2004	
					£'000	£'000	£'000	£'000	
G. R. Fairweather	48	4	4	13	69	82	149	86	47
O. Barra	52	–	–	–	298	81	–	–	–
S. W. J. Duncan ⁽¹⁾	54	7	9	106	–	–	1,683	1,869	(247)
J. F. Harris ⁽²⁾	57	–	10	373	–	–	8,100	7,580	520
G. I. Cooper ⁽³⁾	51	–	1	38	–	99	516	410	106

(1) The total accrued pension of £140,000 disclosed for S. W. J. Duncan at the end of 2004 included a pension debit of £44,000. The comparable figure for 2005 of £106,000 does not include the pension debit since it has been transferred to another pension arrangement under a pension sharing order.

(2) Resigned as a Director in April 2005.

(3) 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. £20,773 per annum of this pension is unfunded and is paid directly by the Company.

Ian Meakins has no pension benefit. He 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. In addition, provision for life assurance and spouse's death in service pension has been made through insurance policies. Stefano Pessina receives no pension benefits.

George Fairweather and Steve Duncan 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 by the Director 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. An actuarial review has identified a funding deficit relating to service up until 31 December 2005 of approximately £108,000 for George Fairweather and £454,000 for Geoff Cooper which will be paid by April 2006.

The Company has undertaken a review of pension arrangements in light of the provisions of the Finance Act 2004. As a result, the 1993 Scheme will be closed in 2006, with suitable adjustments being made to the Company's pension scheme to reflect contractual promises. These changes will maximise the use of the defined benefit section of the Company's pension scheme rather than using unapproved arrangements. The changes do not represent an increase in the value or cost of the contractual promise, but allow the benefits to be provided more efficiently.

Ornella Barra is a member of the unapproved International Pension Scheme, which is a defined contribution arrangement. Based on actuarial advice, the contributions include an amount of previous underfunding of the contractual promise. From 2006, contributions will reflect the cost of future service, as determined by the actuary.

Audit

The following sections of the above report form part of the financial statements on which the auditors have expressed their opinion on page 63: "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
28 February 2006