

## 12 Report of the Directors – Remuneration Report

The Remuneration Committee is constituted in accordance with the Hampel Code and consists entirely of non-executive Directors. J R Kerr-Muir (Chairman), M Clark and R T Turner were members of the Committee throughout the year. The primary role of the Committee is to consider and make recommendations to the Board concerning the remuneration packages and conditions of service of the executive Directors and senior management subject to ratification by the Board.

During the financial year the Committee met twice. Details of Directors' attendance at these meetings are disclosed on page 9.

### Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee members. During the year, the Committee was advised by Slaughter and May, Mercer Human Resource Consulting, and the Group Company Secretary.

### Remuneration Policy

In determining remuneration of the executive Directors, the Committee seeks to maintain a competitive programme, which enables the Company to attract and retain the highest calibre of executive. The performance-related elements of remuneration form a significant proportion of the total remuneration package of executive Directors, details of which are set out in paragraphs (c) and (d) below. They are designed to align their interests with those of shareholders and to give such executive Directors incentives to perform at the highest levels.

The non-executive Directors, who are all independent, do not participate in any pension, bonus, share incentive or other share option plans. Their remuneration reflects both the time given and the contribution made by them to the Company's affairs, including membership or chairmanship of the Board or its Committees. The remuneration of the non-executive Directors is determined by the Board of Directors. The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration.

Before recommending proposals for Board approval, the Remuneration Committee ordinarily seeks advice from external remuneration consultants to ensure it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments. However, the services of remuneration consultants were not used in determining the 2004 salaries, as the base salaries of the executive Directors are to remain the same as the 2003 salaries.

#### a) Service Agreements

Each executive Director has a service agreement providing for a rolling period of notice of one year. There are no provisions in those agreements or otherwise for additional termination payments. The service agreements for G R Menzies, M Rollins and M Sheppard are dated 27 April 2000, 1 November 2000 and 4 February 2004, respectively. The agreements contain provisions requiring the Director to mitigate his loss in the event of termination.

The non-executive Directors do not have service agreements with the Company. J R Kerr-Muir was appointed Chairman under an initial fixed three year contract from 11 May 2001 terminable upon 12 months' notice on or after the third anniversary. M Clark was appointed with effect from 1 February 2001 for an initial three year term, which has been renewed for a further three year term with effect from 1 February 2004. R T Turner is to retire from the Board at the conclusion of the AGM on 16 April 2004.

With prior approval of the Board, executive Directors may hold external non-executive directorships and retain any fees paid for these appointments. At the year-end no executive Director held such a position.

#### b) Base Salaries

In setting the base salary of each Director, the Committee takes into account the pay practice of other companies and the performance of that Director. The Committee is also responsible for ratifying the salaries of all the senior managers of the Group, representing approximately 180 employees, and therefore is fully cognisant of pay levels in the Group when determining the pay of the executive Directors. Notwithstanding these considerations, the Committee is conscious of the significant cost pressures on the Company by customers and the need to rebuild earnings. The Board as a whole has agreed to freeze their base salaries or fees for 2004.

#### c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses of between 0% and 100% (2002 – 0% and 100%) of basic salary could be earned by the executive Directors depending on the Group's actual performance compared to the prior year and to internal targets in respect of underlying earnings per share and cash flow. The table below provides details for 2002 and 2003 of the maximum possible awards together with details of the bonuses paid to G R Menzies and M Rollins as a percentage of their respective salaries:

	Cash flow target		Earnings per share target		Total %
	Interim %	Full year %	Internal target %	Year on year growth %	
Maximum possible award for 2002 and 2003	10	15	45	30	100
2002 bonus paid	10	15	–	–	25
2003 bonus paid	10	15	2	–	27
2004 maximum possible award	6	9	20	25	60

As 2003 was the first full year in which M Sheppard served as a Director of the Company (in addition to his role as Chief Executive of the Automotive and North American Industrial Division) his bonus for the year was 80% dependent on the operating profits and cash flow performance of the Automotive and North American Industrial Division and 20% on Group performance. In 2003 he earned a bonus of 23.8% of salary (2002 – 61.0%) consisting of 18.4% for Divisional performance and 5.4% for Group performance.

The scheme in place for 2004 is largely unchanged from the 2003 scheme. However, given the significant reduction in the Company's net debt levels over recent years, the targets for 2004 have been amended to increase the focus on the rebuilding of earnings. In addition, the maximum payout levels under the scheme have been reduced from 100% to 60% of basic salary as shown in the table above.

#### d) Share Plans

The Company's policy regarding the granting of share options is to encourage participating Directors and other employees to build and retain a long-term stake in the Group and align their interests with those of the shareholders.

All executive Directors are eligible for the following share plans:

##### i) 1999 Executive Share Option Plan ("the Plan")

The Plan, which is open to executive Directors and other senior managers, was launched following its approval by shareholders at the Annual General Meeting in May 1999 with the performance target determined by the Remuneration Committee to be challenging in the light of the Company's performance and prevailing financial circumstances at the time. Any performance target must be no less challenging than the one it replaces.

The maximum number of shares over which options may be awarded to a participant is subject to their value at the time of grant not exceeding:

- a. 100% of the Director's basic salary at the time of the award;
- b. 125% of the Director's basic salary taking into account the combined notional current value of all awards under the LTIP and awards under the Plan in any year; and
- c. the £30,000 statutory limit for the Approved Option element of the Plan.

The total value of options under the Plan and any earlier executive share option schemes, to subscribe for new issue shares granted in any ten year period should not exceed 4 x current annual basic salary or, if higher, remuneration excluding benefits in kind over the previous 12 months. Where options have already been exercised, further "replacement" options may be granted provided that the market value of all outstanding options does not exceed 4 x current annual basic salary or, if higher, remuneration (excluding benefits in kind) over the previous 12 months.

All options granted under this Plan to date will, in normal circumstances, only become exercisable if the Group's underlying earnings per share grows by not less than 4% p.a. compound above the growth in the UK Retail Prices Index over a period of three or more financial years. If not exercised within six years of the date of grant the options will lapse.

Options granted to the Directors are shown under Directors' Interests together with the base underlying earnings per share figure to be used when determining whether the performance target has been met.

For options granted in future, the Remuneration Committee will take into account shareholders' views on performance targets and retesting.

##### ii) Long Term Incentive Plan

Following approval by shareholders at the Annual General Meeting in May 1996, the Long Term Incentive Plan was launched with a five year life which was subsequently extended for a further ten years at the May 2001 Annual General Meeting.

The maximum aggregate value of awards that may be made to an employee in any financial year is 60% of a participant's basic salary at the date of the award. In October 2001, awards, under the new performance criteria, were made to the executive Directors and are shown on page 14 under Directors' Interests, together with the base underlying earnings per share figure to be used in determining whether the performance target has been met. These are the only outstanding awards under the Long Term Incentive Plan. The performance criteria for this award are based on EPS growth performance in excess of inflation, relative to the EPS for the financial year 2000 of the Company, over the four year "restricted period". For the purposes of the award EPS was defined as Earnings Per Share before amortisation of goodwill, profit/loss on sale of fixed assets and profits/losses on disposal of operations and associated undertaking(s). The proportion of the award which may be released is dependent on the percentage annual EPS growth, details of which are set out in the table below:

Percentage annual growth	Proportion of award
Less than 3%	Nil
3%	30%
More than 3% but less than 8%	Pro-rata from 30% and 100%
8% or more	100%

If the performance requirement is not achieved by 30 October 2005, the award shall lapse. The Company currently anticipates that no shares will be distributed under this award.

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### iii) Savings Related Share Option Plan

The Company's Savings Related Share Option Plan was first launched in 1996 to eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the Inland Revenue rules for such savings related plans.

As employees, executive Directors are eligible to participate and their options under the Plan are shown below under Directors' Interests.

### e) Retirement Benefits

G R Menzies' and M Rollins' pension arrangements are provided by the Group plan and are based upon their pensionable salaries up to the Inland Revenue "cap". M Sheppard participates in a defined benefit plan and a defined contribution plan both of which are made available to the Group's US employees. His base salary is pensionable up to a "cap" of \$200,000 p.a.

### f) Other Benefits

There are non-cash benefits including provision of a fully expensed car and medical insurance.

### Directors' Emoluments

The information presented in the remainder of this report has been audited, with the exception of the Directors' Interests in shares and the Total Shareholder Return graph.

Aggregate remuneration	2003 £000's	2002 £000's
Emoluments	1,023	881
Gains on exercise of share options and incentives (see below)	–	–
Money purchase pension contributions	10	3
<b>Total</b>	<b>1,033</b>	<b>884</b>

Directors' emoluments	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2003 Total £000's	2002 Total £000's
<b>Executive</b>					
G R Menzies	314	85	16	415	408
M Rollins	185	50	13	248	238
M Sheppard	174	41	14	229	104
<b>Non-executive</b>					
J R Kerr-Muir	72	–	–	72	72
M Clark	34	–	–	34	34
R T Turner	25	–	–	25	25
	<b>804</b>	<b>176</b>	<b>43</b>	<b>1,023</b>	<b>881</b>

Bonuses as shown above are payable to G R Menzies, M Rollins and M Sheppard under the Annual Performance Bonus scheme. The comparative for M Sheppard covers the period from appointment on 1 September 2002.

The above figures for emoluments do not include any amount for the value of share options or awards granted to, or held by, Directors.

### Directors' Interests

The Directors who served during the year and their interests (which are all beneficial), including family interests, in the 10p ordinary shares of the Company were as follows:

Shares	Shares 2003	Shares 2002
G R Menzies	500,000	500,000
M Rollins	100,000	100,000
M Sheppard	–	–
J R Kerr-Muir	120,819	120,819
M Clark	20,000	20,000
R T Turner	36,900	36,900

No change in any of the Directors' share interests occurred during the period 31 December 2003 to 3 March 2004.

Options and other share incentives				Gains on exercise/	Market price on exercise/	Lapsed	At	Option price	Exercise period/ maturity date	
Date of grant/award	At 31.12.02	Granted 2003	Exercised 2003	vesting 2003	vesting 2003	2003	31.12.03			
<b>G R Menzies</b>										
1999 Executive Share Option Plan										
05.04.00	227,272	-	-	-	-	-	227,272	82.50p	3 years to 04.04.06	
13.09.00	230,755	-	-	-	-	-	230,755	54.17p	3 years to 12.09.06	
12.03.03	-	1,019,552	-	-	-	-	1,019,552	23.08p	3 years to 11.03.09	
Sharesave Plan										
06.10.00	38,793	-	-	-	-	-	38,793	43.50p	6 months to 31.05.06	
Long Term Incentive Plan – Performance Awards										
31.10.01	270,000	-	-	-	-	-	270,000	-	30.10.05	
<b>M Rollins</b>										
1999 Executive Option Plan										
13.05.99	37,172	-	-	-	-	-	37,172	154.35p	3 years to 12.05.05	
13.09.00	276,906	-	-	-	-	-	276,906	54.17p	3 years to 12.09.06	
12.03.03	-	521,014	-	-	-	-	521,014	23.08p	3 years to 11.03.09	
Sharesave Plan										
06.10.00	22,270	-	-	-	-	-	22,270	43.50p	6 months to 31.05.04	
Long Term Incentive Plan – Performance Awards										
31.10.01	180,000	-	-	-	-	-	180,000	-	30.10.05	
<b>M Sheppard</b>										
1999 Executive Share Option Plan										
13.05.99	48,924	-	-	-	-	-	48,924	154.35p	3 years to 12.05.05	
13.09.00	328,173	-	-	-	-	-	328,173	54.17p	3 years to 12.09.06	
12.03.03	-	499,747	-	-	-	-	499,747	23.08p	3 years to 11.03.09	
Sharesave Plan										
06.10.00	24,018	-	-	-	-	-	24,018	43.50p	6 months to 31.05.04	
Long Term Incentive Plan – Performance Awards										
31.10.01	180,000	-	-	-	-	-	180,000	-	30.10.05	

Details of the 1999 Executive Share Option Plan and the Long Term Incentive Plan may be found on page 13.

Options granted from 1999 onwards and awards under the Long Term Incentive Plan become exercisable only when certain performance targets have been met. The base underlying earnings per share figures used to determine whether the target has been met are as follows:

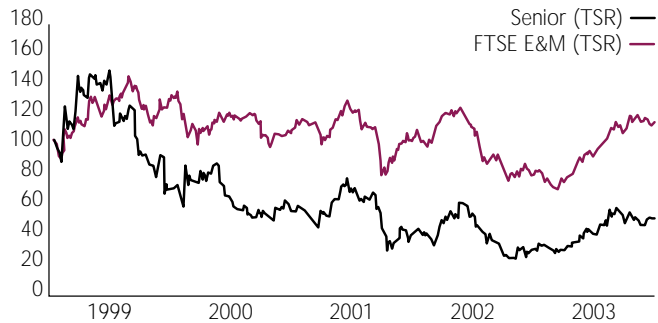
Date of grant	13.05.99	05.04.00	13.09.00	31.10.01	12.03.03
Base underlying EPS	11.75p	6.03p	6.03p	5.87p	4.47p

The total net value of the Directors' unexercised options, all of which were unexercisable, at 31 December 2003 was £304,414 (2002 – £nil) representing options held by G R Menzies (£152,117), M Rollins (£77,735) and M Sheppard (£74,562). The net value of unexercised options is the positive difference between the closing middle market price of the Company's shares at the year-end (38.00p per share) and the exercise price of the options. It does not take into account the likelihood of the performance targets being met.

Inclusive of the above Long Term Incentive Plan awards to Directors, at 31 December 2003, 870,716 ordinary shares (2002 – 870,716 ordinary shares) were held by the Senior plc Employee Benefit Trust, a discretionary trust resident in Jersey. The market value of these shares at 31 December 2003 was £331,000 (2002 – £209,000). The Trust has materially waived its rights to dividends on these shares. The potential beneficiaries of this Trust include executive Directors and senior management within the Group and, accordingly, the executive Directors are collectively interested in these shares.

The middle market price of the shares at 31 December 2003 was 38.00p (2002 – 24.00p). During 2003 the shares traded in the range of 21.00p to 45.00p.

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This graph compares the Total Shareholder Return of the Company's shares against the FTSE Engineering and Machinery Index over a five-year period (where dividends are included gross of tax). This index allows a comparison to be made against organisations facing broadly similar economic and market conditions as the Company.

### Directors' Pension Entitlements

The Directors had accrued entitlements under final salary plans as follows:

	Gross increase in accrued pension (A) £000's	Increase in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.03 (C) £000's	Value of net increase in accrual over period (D) £000's	Change in transfer value during period (E) £000's	Transfer value of accrued pension at 31.12.03 (F) £000's	Transfer value of accrued pension at 31.12.02 (G) £000's
G R Menzies	3	3	12	45	59	195	129
M Rollins	3	3	12	16	24	91	62
M Sheppard	3	2	26	4	8	42	38
Total	9	8	50	65	91	328	229

1. Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.
2. Transfer values as at 31 December 2002 and 31 December 2003 have been calculated in accordance with version 1.5 of Guidance Note GN11 issued by the actuarial profession.
3. The value of net increase (D) represents the incremental value to the Director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the accrued pension increase (B) after deducting the Director's contribution.
4. The change in the transfer value (E) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Director's contribution.
5. Voluntary contributions paid by Directors and resulting benefits are not shown.
6. The figures quoted last year for M Sheppard were overstated. His benefits have now been clarified and restated above.
7. The figures quoted above for M Sheppard include the defined benefit element of his pension only. In addition, he has a defined contribution arrangement, to which the Company paid \$17,000 during the year.

### Shareholder approval for the Remuneration Report

The Company is proposing an ordinary resolution to its shareholders approving this Remuneration Report.

James Kerr-Muir  
Chairman of the Remuneration Committee  
for and on behalf of Senior plc  
3 March 2004