

Report of the Directors – Remuneration Report

Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. J R Kerr-Muir and M Clark were members of the Committee throughout the year. RT Turner was a member of the Committee to 1 July 2004; G A Campbell has been a member of the Committee since 1 July 2004. Given the impending and subsequent retirement of RT Turner during the year and the appointment of G A Campbell as his replacement, the Board considered that it would be in the best interest of shareholders for J R Kerr-Muir to remain on the Remuneration Committee to provide continuity during a period of transition. J R Kerr-Muir resigned from the Remuneration Committee on 31 January 2005 and G A Campbell was appointed Chairman of that Committee on the same date.

Role of the Remuneration Committee

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 approximately 90 other senior managers. The terms of reference of the Remuneration Committee may be found on the Company's website. During the financial year the Committee met three times. Details of Directors' attendance at these meetings are disclosed on page 8.

Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee. During the year, the Committee was advised by New Bridge Street Consultants, in relation to the introduction of a new share incentive plan, and by 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 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 may seek advice from external remuneration consultants to ensure it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments. The services of remuneration consultants were not used in determining the 2005 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 relevant Director to mitigate his loss in the event of termination. G R Menzies' agreement (the terms of which remain unchanged since his appointment) provides that in the event of a change of control of the Company, he has the option to resign within three months of such change of control without a duty to mitigate.

The non-executive Directors do not have service agreements with the Company. J R Kerr-Muir was appointed Chairman with effect from 11 May 2001. His contract is terminable upon 12 months' notice by either party 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. RT Turner retired from the Board on 1 July 2004. G A Campbell was appointed with effect from 1 July 2004 for an initial three year term.

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, G R Menzies held two such positions.

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 approximately 90 senior managers 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 froze their base salaries or fees for 2004. The base salary for G R Menzies for 2005 remains the same as his 2004 salary as he now holds two non-executive directorships for which he retains the fees (rather than one, as had been the case for most of 2004). M Rollins and M Sheppard received inflationary increases to their 2004 base salaries of 2.7% and 3.5% respectively. The 2005 fees for the non-executive Directors will remain the same as those for 2004.

c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses up to 60% (2003 – up to 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 of the maximum possible awards for 2004 together with details of the bonuses paid to G R Menzies and M Rollins as a percentage of their respective salaries:

Report of the Directors – Remuneration Report continued

	Cash flow target		Earnings per share target		Total %
	Interim %	Full year %	Internal target %	Year-on-year growth %	
Maximum possible award for 2004	6.0	9.0	20.0	25.0	60.0
2004 bonus paid	4.2	7.1	1.0	3.7	16.0

As M Sheppard serves 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 2004 he earned a bonus of 12.9% of salary (2003 – 23.8%) consisting of 9.7% for Divisional performance and 3.2% for Group performance.

The scheme in place for 2005 is unchanged from the 2004 scheme.

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 currently 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:

- 100% of the Director's basic salary at the time of the award;
- 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
- 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. No more options shall be granted under the Plan if shareholders approve the Senior plc 2005 Long Term Incentive Plan at the forthcoming AGM.

ii) Long Term Share Incentive Plan

Following approval by shareholders at the Annual General Meeting in May 1996, the Long Term Share 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 Share 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%

As the performance requirement has not been achieved, the outstanding award is expected to lapse on 30 October 2005. No more awards shall be made under the Long Term Share Incentive Plan if shareholders approve the Senior plc 2005 Long Term Incentive Plan.

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.

iv) *Senior plc 2005 Long Term Incentive Plan*

In September 2004 New Bridge Street Consultants was appointed to advise the Remuneration Committee on the Company's long term incentive arrangements for senior executives. Approval of shareholders is to be sought at the 2005 AGM for the adoption of a new long term share incentive plan to replace the existing 1999 Executive Share Option Plan and the Long Term Share Incentive Plan. A summary of the main terms of the proposed plan is set out in the enclosed Chairman's Letter and Notice of Meeting with this Annual Report. When granting future awards, the Board shall give consideration to the method of sourcing shares for the share schemes, in particular, the balance between issued and unissued shares to be utilised.

e) **Retirement Benefits**

G R Menzies' and M Rollins' pension arrangements are provided by the Group's UK plan and are based upon their pensionable salaries up to the Inland Revenue "cap". M Sheppard participates in a defined benefit plan that has now closed to new entrants and a defined contribution plan that remains available to the Group's US employees. His base salary is pensionable up to a "cap" of \$205,000 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.

Directors' emoluments	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2004 Total £000's	2003 Total £000's
Executive					
G R Menzies	314	50	19	383	415
M Rollins	185	30	13	228	248
M Sheppard	156	20	14	190	229
Non-executive					
J R Kerr-Muir	72	–	–	72	72
M Clark	34	–	–	34	34
G A Campbell (from 1 July 2004)	13	–	–	13	–
R T Turner (to 1 July 2004)	13	–	–	13	25
	787	100	46	933	1,023

Bonuses as shown above are payable to G R Menzies, M Rollins and M Sheppard under the Annual Performance Bonus scheme. The above figures for emoluments do not include any amount for the value of share options or awards granted to, or held by, Directors.

Aggregate remuneration	2004 £000's	2003 £000's
Emoluments	933	1,023
Gains on exercise of share options and incentives (see below)	–	–
Money purchase pension contributions	6	10
Total	939	1,033

In addition to setting the remuneration of the Executive Directors, the Remuneration Committee oversees the remuneration of 90 other senior managers. The table below shows the cumulative benefits of the three other Divisional directors and the three most senior Corporate managers:

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2004 Total £000's
	569	145	51	765

No prior year comparison is stated as this is the first time that the data has been presented.

Report of the Directors – Remuneration Report continued

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 2004	Shares 2003
G R Menzies	500,000	500,000
M Rollins	100,000	100,000
M Sheppard	–	–
J R Kerr-Muir	150,819	120,819
G A Campbell (appointed to the Board 1 July 2004)	–	–
M Clark	50,000	20,000
RT Turner (retired from the Board 1 July 2004)	36,900	36,900

The 2004 shareholding for RT Turner is stated as at his date of retirement from the Board.

No change in any of the current Directors' share interests occurred during the period 31 December 2004 to 2 March 2005.

Options and other share incentives					Gains on exercise/ vesting 2004	Market price on exercise/ vesting 2004	Lapsed 2004	At 31.12.04	Option price	Exercise period/ maturity date
Date of grant/award	At 31.12.03	Granted 2004	Exercised 2004							
G R Menzies										
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 01.05.06
Long Term Share Incentive Plan – Performance Awards										
31.10.01	270,000	–	–	–	–	–	–	270,000	–	30.10.05
M Rollins										
1999 Executive Share 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 01.05.04
Long Term Share Incentive Plan – Performance Awards										
31.10.01	180,000	–	–	–	–	–	–	180,000	–	30.10.05
M Sheppard										
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 01.05.04
Long Term Share 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 Share Incentive Plan may be found on page 12.

Options granted from 1999 onwards and awards under the Long Term Share 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:

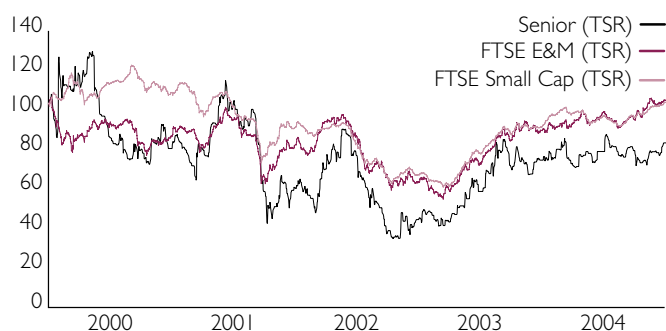
Date of grant	13.05.99	05.04.00	13.09.00	31.10.01	12.03.03
Base underlying EPS	11.75p	6.03p	6.03p	5.87p	4.47p

The total net value of the Directors' unexercised options at 31 December 2004, all of which were unexercisable, was £355,423 (2003 – £304,414) representing options held by G R Menzies (£177,606), M Rollins (£90,761) and M Sheppard (£87,056). 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 (40.50p 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 Share Incentive Plan awards to Directors, at 31 December 2004, 870,716 ordinary shares (2003 – 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 2004 was £353,000 (2003 – £331,000). 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.

Dividends do not accrue on shares that vest under the Long Term Share Incentive Plan arrangements and are not credited to share options awards under the 1999 Executive Share Option Plan. The Remuneration Committee notes the introduction of International Accounting Standard 33 "Earnings per Share", and confirms that any change to the presentation of the EPS performance targets for the Company's share schemes will not result in any less stringent performance targets applying to the existing share awards.

The middle market price of the shares at 31 December 2004 was 40.50p (2003 – 38.00p). During 2004 the shares traded in the range of 34.75p to 44.00p.



This graph compares the Total Shareholder Return of the Company's shares against the FTSE Engineering and Machinery Index and the FTSE Small Cap 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 31.12.04 (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 31.12.04 (F) £000's	Transfer value of accrued pension at 31.12.03 (G) £000's
G R Menzies	4	3	16	53	77	277	195
M Rollins	3	3	16	20	37	133	91
M Sheppard	3	2	27	3	8	47	42
Total	10	8	59	76	122	457	328

- Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.
- Transfer values as at 31 December 2003 and 31 December 2004 have been calculated in accordance with version 9.1 of Guidance Note GN11 issued by the actuarial profession.
- The transfer 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.
- 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.
- Voluntary contributions paid by Directors and resulting benefits are not shown.
- 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 he paid \$10,000 and the Company paid \$12,000 during the year.

Shareholder approval for the Remuneration Report

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

G A Campbell
Chairman of the Remuneration Committee
for and on behalf of Senior plc
2 March 2005