

# Remuneration Report

The Directors present their Remuneration Report for the year ended 31 December 2005 in accordance with the Directors' Remuneration Report Regulations 2002 and the relevant provisions of the Listing Rules of the Financial Services Authority. The report also describes how the Board has applied the Principles of Good Governance relating to Directors' Remuneration.

## Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. M Clark was a member of the Committee throughout the year. G A Campbell was a member of the Committee to 30 November 2005; and took over as Chairman of the Committee on 31 January 2005. IFR Much has been Chairman of the Committee since his appointment on 21 December 2005. Given the retirement of RT Turner during 2004 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.

## 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 7.

## 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 was renewed for a further three year term with effect from 1 February 2004. G A Campbell resigned from the Board on 30 November 2005. IFR Much was appointed with effect from 21 December 2005 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. M Rollins has held a non-executive directorship from January 2006.

### 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. The base salary for G R Menzies for 2005 remained 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). In 2005, G R Menzies received non-executive directorship fees of £62,000. M Rollins and M Sheppard received inflationary increases to their 2004 base salaries of 2.7% and 3.5% respectively. The base salary for M Rollins for 2006 is to remain the same as his 2005 salary as, from January 2006, he now holds a non-executive directorship for which he retains the fees. G R Menzies and M Sheppard received inflationary increases to their 2005 base salaries of 2.9% and 3.4% respectively. The 2006 fees for J R Kerr-Muir and M Clark increased by £6,000 each to £78,000 p.a. and £40,000 p.a. respectively; the first increases since 2002.

### c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses up to 60% (2004 – up to 60%) 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 2005 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 2005 and 2004	6.0	9.0	20.0	25.0	60.0
2004 bonus paid	4.2	7.1	1.0	3.7	16.0
2005 bonus paid	5.9	8.3	15.8	9.8	39.8

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 2005 he earned a bonus of 51.5% of salary (2004 – 12.9%) consisting of 43.5% for Divisional performance and 8.0% for Group performance.

The scheme in place for 2006 is unchanged from the 2005 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, or were, eligible to participate in the following share plans:

#### i) 1999 Executive Share Option Plan ("the 1999 Plan") (closed for new awards)

No more options are to be granted under the 1999 Plan following shareholder approval of the Senior plc 2005 Long Term Incentive Plan at the 2005 AGM.

The 1999 Plan, which was 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 could be awarded to a participant was 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 Long Term Share Incentive Plan and awards under the 1999 Plan in any year; and
- the £30,000 statutory limit for the Approved Option element of the 1999 Plan.

The total value of options under the 1999 Plan and any earlier executive share option schemes, to subscribe for new issue shares granted in any ten year period could not exceed 4 x current annual basic salary or, if higher, remuneration excluding benefits in kind over the previous 12 months. Where options had already been exercised, further "replacement" options could be granted provided that the market value of all outstanding options did 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 1999 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.

#### ii) Long Term Share Incentive Plan (closed for new awards)

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. No more awards are to be made under the Long Term Share Incentive Plan following shareholder approval of the Senior plc 2005 Long Term Incentive Plan at the 2005 AGM.

The maximum aggregate value of awards that could be made to an employee in any financial year was 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 were the only outstanding awards under the Long Term Share Incentive Plan and lapsed on 30 October 2005 as the performance requirement has not been achieved.

#### 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 on page 14 below under Directors' Interests.

## Remuneration Report continued

### iv) Senior plc 2005 Long Term Incentive Plan ('the 2005 LTIP')

At the 2005 AGM, shareholders approved the adoption of the 2005 LTIP, a new long term share incentive plan to replace the existing 1999 Plan and the Long Term Share Incentive Plan.

The Remuneration Committee considers that the 2005 LTIP (the main details of which are set out below) will bring Senior's arrangements more in line with current practice and the evolving views of investors, and provide a better link between senior management performance and reward.

Each year, an individual could receive an award worth up to 100% of annual salary (or 200% of salary in the case of recruitment). The first awards under the 2005 LTIP were made on 20 May 2005 and were limited to 80% of salary. The awards are conditional allocations, where the executives will receive free ordinary shares in the Company automatically on the vesting of their award. Awards will normally vest on, or shortly following, the third anniversary of grant once the Committee has determined the extent to which the applicable performance conditions (see below) have been satisfied, and provided the participant is still employed in the Company's group.

All awards are subject to performance conditions set by the Committee. The 2005 LTIP is designed to reward senior executives partly for delivering superior total shareholder return ("TSR") performance and partly for achieving challenging earnings per share ("EPS") growth targets. In each case, performance will be measured over a three year performance period beginning on the first day of the financial year in which the award is made. The vesting of one half of each of the initial awards will depend on the Company's TSR performance compared to that of the members of the FTSE Small Cap Index (excluding investment trusts), while the vesting of the other half of each award will depend on the growth of the Company's adjusted EPS relative to RPI.

The vesting of the TSR-related half of the initial awards will be determined on the following basis:

Ranking of Company's TSR compared with the FTSE Small Cap Index (excluding investment trusts) over the performance period	Percentage of TSR half of an award which vests
Below Median	0%
Median	25%
Upper Quintile (top 20%)	100%
Between Median and Upper Quintile	Pro rata on a straight-line basis between 25% and 100%

TSR will be averaged over three months prior to the start and end of the performance period.

The vesting of the EPS-related half of an award will be determined on the following basis:

Company's average annual adjusted EPS performance in excess of RPI	Vesting percentage – EPS half of an award
Less than 5% p.a.	0%
5% p.a.	25%
12% p.a.	100%
Between 5% and 12% p.a.	Pro rata on a straight-line basis between 25% and 100%

The Remuneration Committee encourages Directors to own shares and, in support of this policy, it expects Directors to retain at least 50% of the shares they acquire under the 2005 LTIP, after allowing for tax liabilities, until a holding of 100% of base salary is built up.

### 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's "cap". From 6 April 2006 (A-Day) the Group's UK plan is to adopt its own earnings cap which shall be calculated on the same basis as the Inland Revenue's pre-A-Day "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 \$210,000 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	2005 Total £000's	2004 Total £000's
<b>Executive</b>					
G R Menzies	314	179	20	513	383
M Rollins	190	76	14	280	228
M Sheppard	162	83	16	261	190
<b>Non-executive</b>					
J R Kerr-Muir	72	–	–	72	72
M Clark	34	–	–	34	34
I FR Much (from 21 December 2005)	1	–	–	1	–
G A Campbell (to 30 November 2005)	25	–	–	25	13
R T Turner (to 1 July 2004)	–	–	–	–	13
	<b>798</b>	<b>338</b>	<b>50</b>	<b>1,186</b>	<b>933</b>

Bonuses as shown above are payable to M Rollins and M Sheppard under the Annual Performance Bonus scheme. G R Menzies' bonus of £179k consisted of £125k payable under the Annual Performance Bonus scheme and a payment of £54k as compensation for the diminution in value of his pension benefits due to the previously incorrect calculation of his pension entitlement. 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

	2005 £000's	2004 £000's
Emoluments	1,186	933
Gains on exercise of share options and incentives (see below)	–	–
Money purchase pension contributions	6	6
<b>Total</b>	<b>1,192</b>	<b>939</b>

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	2005 Total £000's	2004 Total £000's
	574	190	51	815	765

## 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 2005	Shares 2004
G R Menzies	600,000	500,000
M Rollins	100,000	100,000
M Sheppard	–	–
J R Kerr-Muir	175,819	150,819
M Clark	50,000	50,000
I FR Much (appointed to the Board 21 December 2005)	–	–
G A Campbell (retired from the Board 30 November 2005)	–	–

## Remuneration Report continued

### Options and other share incentives

	Date of grant/award	At 31.12.04	Granted 2005	Exercised 2005	Gains on exercise/ vesting 2005	Market price on exercise/ vesting 2005	Forefeited 2005	Lapsed 2005	At 31.12.05	Option price	Exercise period/ maturity date
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 31.05.06
Long Term Share Incentive Plan – Performance Awards											
	31.10.01	270,000	–	–	–	–	270,000	–	–	–	30.10.05
2005 Long Term Incentive Plan											
	20.05.05	–	619,753	–	–	–	–	–	619,753	–	March 08
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
Long Term Share Incentive Award Plan – Performance Awards											
	31.10.01	180,000	–	–	–	–	180,000	–	–	–	30.10.05
2005 Long Term Incentive Plan											
	20.05.05	–	375,308	–	–	–	–	–	375,308	–	March 08
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
Long Term Share Incentive Plan – Performance Awards											
	31.10.01	180,000	–	–	–	–	180,000	–	–	–	30.10.05
2005 Long Term Incentive Plan											
	20.05.05	–	316,693	–	–	–	–	–	316,693	–	March 08

The market price of the Company's shares on 20 May 2005, the date of the award under the 2005 LTIP, was 40.25p.

Details of the share schemes referred to in the above table may be found on pages 11 and 12.

Options granted from 1999 onwards and awards under the 2005 LTIP 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:

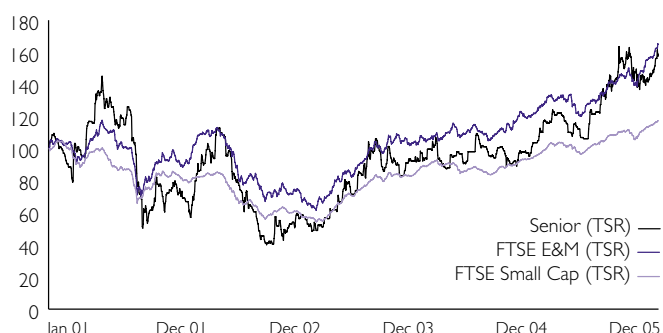
Date of grant	05.04.00	13.09.00	12.03.03	20.05.05
Base underlying EPS	6.03p	6.03p	4.47p	3.59p

The total net value of the Directors' unexercised options at 31 December 2005 (excluding awards under the 2005 LTIP), all of which were unexercisable, except for G R Menzies' option granted under the Sharesave Plan, was £793,839 (2004 – £355,423) representing options held by G R Menzies (£389,827), M Rollins (£204,512) and M Sheppard (£199,499). 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 (59.50p per share) and the exercise price of the options. It does not take into account the likelihood of the performance targets being met.

At 31 December 2005, 870,716 ordinary shares (2004 – 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 2005 was £518,076 (2004 – £353,000). The Trust has materially waived its rights to dividends on these shares. As the award under the Long Term Share Incentive Plan lapsed during the year, the executive Directors are no longer collectively interested in these shares.

Dividends do not accrue on shares that vest under the 2005 LTIP arrangements and are not credited to share option awards under the 1999 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 closing middle market price of the shares at 31 December 2005 was 59.50p (2004 – 40.50p). During 2005 the shares traded in the range of 40.25p to 62.00p.



This graph compares the Total Shareholder Return of the Company's shares against the FTSE Industrial Engineering 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 31.12.05 (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 31.12.05 (F) £000's	Transfer value of accrued pension at 31.12.04 (G) £000's
G R Menzies	4	4	20	62	108	393	277
M Rollins	4	3	19	24	57	198	133
M Sheppard	3	2	33	4	10	62	47
<b>Total</b>	<b>11</b>	<b>9</b>	<b>72</b>	<b>90</b>	<b>175</b>	<b>653</b>	<b>457</b>

1. The pension entitlement shown is that which would be paid annually on retirement based on service to, and final pensionable salary at, 31 December 2005.
2. The gross increase in accrued pension during the year (A) includes an increase for inflation; the net increase in accrued pension (B) excludes any such increase.
3. The transfer values have been calculated in accordance with version 9.2 of Guidance Note GN11 issued by the actuarial profession.
4. Any Additional Voluntary Contributions paid by the Directors and the resulting benefits are not shown.
5. The figures quoted above for M Sheppard are in respect of the defined benefit element of his pension only. In addition, he has a defined contribution arrangement, to which he paid \$11,000 and the Company paid \$10,000 during the year.
6. The transfer value of net increase (D) represents the incremental value to the Director of his service during the year, calculated assuming service terminated at the year-end. It is based on the accrued pension increase (B) and is quoted after deducting the Director's contribution.
7. 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 quoted after deducting the Director's contribution.

### Shareholder approval for the Remuneration Report

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

This report was approved by the Board on 1 March 2006 and signed on its behalf by:

IFRMuch  
Chairman of the Remuneration Committee