

# Remuneration Report

The Directors present their Remuneration Report for the year ended 31 December 2006 in accordance with Schedule 7A of the Companies Act 1985 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.

The Companies Act 1985 ("the Act") requires the external auditors to report to the Company's members on certain parts of the Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The Remuneration Report has therefore been divided into separate sections for audited and unaudited information.

## Unaudited Information

### Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. I F R Much (Chairman) and M Clark were members of the Committee throughout the year. J R Kerr-Muir was re-appointed to the Remuneration Committee on 1 August 2006.

### 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 five times. Details of Directors' attendance at these meetings are disclosed on page 4.

### 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 a review of executive Directors' and senior managers' remuneration, by Slaughter & May in relation to the adoption of the Senior plc 2006 Savings Related Share Option Scheme, 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 used in determining the 2007 salaries of executive Directors and senior managers.

### 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 his loss.

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. J R Kerr-Muir intends to retire from the Board during 2007. M Clark was appointed with effect from 1 February 2001 for an initial three year term, which was subsequently renewed for further three year terms to 1 February 2010. I F R 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 and M Rollins held one such position each. M Rollins has held his non-executive directorship from January 2006. In 2006, G R Menzies and M Rollins received and retained non-executive directorship fees of £37,000 and £30,000 respectively.

### 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 salaries in 2006 for the executive Directors for the year were as follows: G R Menzies – £323,000 (2005 – £313,500), M Rollins – £190,000 (2005 – £190,000), and M Sheppard – £165,800 (2005 – £156,100).

As a result of the review of the executive Directors' remuneration, the Remuneration Committee recommended that the base salaries for the executive Directors for 2007 should be as follows: G R Menzies – £340,000, M Rollins – £210,000, and M Sheppard – £166,700.

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; these being the first increases since 2002. I F R Much's fee for 2006 was £33,000. The non-executive Directors' fees for 2007 remain unchanged from 2006.

### c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses up to 60% (2005 – 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 2006, 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 2006 and 2005	6.0	9.0	20.0	25.0	60.0
2005 bonus paid	5.9	8.3	15.8	9.8	39.8
2006 bonus paid	4.9	9.0	14.2	21.7	49.8

As M Sheppard serves as a Director of the Company, in addition to his role as Chief Executive of the Flexonics Division, his bonus for the year was 80% dependent on the operating profits and cash flow performance of the Flexonics Division and 20% on Group performance. In 2006, he earned a bonus of 38.6% of salary (2005 – 51.5%) consisting of 28.64% for Divisional performance and 9.96% for Group performance.

The scheme in place for 2007 is broadly unchanged from the 2006 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 the introduction of the Senior plc 2005 Long Term Incentive Plan.

The 1999 Plan was open to executive Directors and other senior managers, 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.

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 1996 Long Term Share Incentive Plan (this plan has now lapsed) 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 10 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, 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) Senior plc 2005 Long Term Incentive Plan ("the 2005 LTIP")

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

The Remuneration Committee considers that the 2005 LTIP (the main details of which are set out below) is in line with current practice and the evolving views of investors, and provides an effective link between senior management performance and reward.

Each year, an individual can receive an award worth up to 100% of annual salary (or 200% of salary in the case of recruitment). The awards made in 2006 under the 2005 LTIP were limited to 50% 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 that the participant is still employed within the Company's group.

## Remuneration Report continued

All awards are subject to performance conditions set by the Remuneration 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 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 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 believes that this mixture of conditions provides an effective balance so that executives are encouraged to enhance underlying financial performance whilst retaining focus on the need to deliver superior returns for the Company's shareholders.

The Remuneration Committee encourages Directors to own shares in the Company 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.

### iii) Savings-Related Share Option Plan ("the Sharesave Plan")

The Company's Sharesave Plan was first launched in 1996 to eligible employees across the Group, and was updated and renewed for a further 10 years in 2006. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs ("HMRC") rules for savings-related plans. As employees, executive Directors are eligible to participate and their options under the Sharesave Plan are shown on page 22 under Directors' Interests.

### e) Retirement Benefits

G R Menzies' and M Rollins' pension arrangements are provided by the Group's UK pension plan and are based upon their pensionable salaries up to the HMRC's "cap". G R Menzies and M Rollins contribute 7.5% of salary to cap. From 6 April 2006 (A-Day), the Group's UK pension plan adopted its own earnings cap, which has been calculated on the same basis as the HMRC'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 \$220,000 p.a.

### f) Other Benefits

The executive Directors also receive non-cash benefits including the provision of a fully expensed car and medical insurance.

## Audited Information

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

Directors' emoluments

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2006 Total £000's	2005 Total £000's
<b>Executive</b>					
G R Menzies	323	161	26	510	513
M Rollins	190	95	14	299	280
M Sheppard	166	64	15	245	261
<b>Non-executive</b>					
J R Kerr-Muir	78	-	-	78	72
M Clark	40	-	-	40	34
I F R Much (from 21 December 2005)	33	-	-	33	1
G A Campbell (to 30 November 2005)	-	-	-	-	25
	<b>830</b>	<b>320</b>	<b>55</b>	<b>1,205</b>	<b>1,186</b>

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

	2006 £000's	2005 £000's
Emoluments	1,205	1,186
Gains on exercise of share options and incentives (see Options and other share incentives table below)	10	-
Money purchase pension contributions	7	6
Total	<b>1,222</b>	<b>1,192</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	2006 Total £000's	2005 Total £000's
	<b>593</b>	<b>225</b>	<b>49</b>	<b>867</b>	<b>815</b>

## 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 2006	Shares 2005
G R Menzies	840,000	600,000
M Rollins	120,000	100,000
M Sheppard	-	-
J R Kerr-Muir	210,982	175,819
M Clark	60,000	50,000
I F R Much	-	-

The Directors subscribed in full for their rights under the 2006 rights issue. There were no changes to the Directors' shareholdings between the end of the year and the date of this report.

## Remuneration Report continued

### Options and other share incentives

Date of grant/award	At 31.12.05	Granted 2006	Exercised 2006	Gains on exercise/ vesting 2006	Market price on exercise/ vesting 2006	Forfeited 2006	Lapsed 2006	31.12.06	Option price	Exercise period/ maturity date
<b>G R Menzies</b>										
1999 Executive Share Option Plan										
05.04.00	238,660	–	–	–	–	–	238,660	0	78.56p	3 years to 04.04.06
13.09.00	242,318	–	–	–	–	–	242,318	0	51.58p	3 years to 12.09.06
12.03.03	1,070,643	–	–	–	–	–	–	1,070,643	21.97p	3 years to 11.03.09
Sharesave Plan										
06.10.00	40,736	–	40,736	£9,857	–	–	–	0	41.42p	6 months to 31.05.06
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	650,810	–	–	–	–	–	–	650,810	–	March 08
<b>M Rollins</b>										
1999 Executive Share Option Plan										
13.09.00	290,782	–	–	–	–	–	290,782	0	51.58p	3 years to 12.09.06
12.03.03	547,122	–	–	–	–	–	–	547,122	21.97p	3 years to 11.03.09
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	394,115	–	–	–	–	–	–	394,115	–	March 08
15.03.06	–	146,706	–	–	–	–	–	146,706	–	March 09
<b>M Sheppard</b>										
1999 Executive Share Option Plan										
13.09.00	344,618	–	–	–	–	–	344,618	0	51.58p	3 years to 12.09.06
12.03.03	524,789	–	–	–	–	–	–	524,789	21.97p	3 years to 11.03.09
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	332,563	–	–	–	–	–	–	332,563	–	March 08
15.03.06	–	134,572	–	–	–	–	–	134,572	–	March 09

The market price (adjusted for the effect of the rights issue) of the Company's shares on 20 May 2005, the date of the first award under the 2005 LTIP, was 38.28p; and on 15 March 2006, the date of the second award under the 2005 LTIP, was 65.86p. The adjusted share price on the date G R Menzies exercised his option under the Sharesave Plan was 65.62p. Details of the share schemes referred to in the above table may be found on pages 19 and 20.

All outstanding options and awards 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:

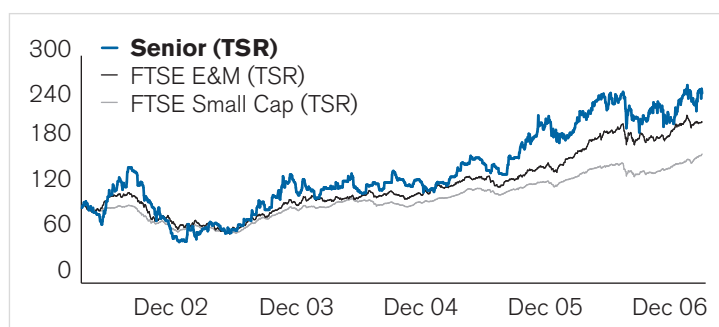
Date of grant	05.04.00	13.09.00	12.03.03	20.05.05	15.03.06
Base underlying EPS (adjusted for the effect of the rights issue)	5.74p	5.74p	4.26p	3.42p	3.82p

The total net value of the Directors' unexercised options at 31 December 2006 (excluding awards under the 2005 LTIP), all of which were unexercisable, was £900,515 (2005 – £791,701) representing options held by G R Menzies (£449,991), M Rollins (£229,955) and M Sheppard (£220,569). 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 (64.00p 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 2006, 1,044,859 ordinary shares (2005 – 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 2006 was £668,710 (2005 – £518,076). The prior year comparative figures for both the number of shares and the value of shares held by the Trust are not adjusted to reflect the 2006 rights issue. The Trust has materially waived its rights to dividends on these shares. The executive Directors are not 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 than those applying to the existing share awards.

The closing middle market price of the shares at 31 December 2006 was 64.00p (2005 – 56.58p). During 2006, the shares traded in the range of 51.35p to 66.75p.



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 graph 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 defined benefit plans as follows:

	Gross increase in accrued pension (A)	Increase in accrued pension net of inflation (B)	Total accrued pension at 31.12.06 (C)	Value of net increase in accrual over period (D)	Change in transfer value during period (E)	Transfer value of accrued pension at 31.12.06 (F)	Transfer value of accrued pension at 31.12.05 (G)
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
G R Menzies	4	3	24	59	104	505	393
M Rollins	4	3	23	23	45	251	198
M Sheppard	3	2	32	5	17	70	62
Total	11	8	79	87	166	826	653

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 2006.
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 participated in the defined contribution plan to which he paid \$11,000 and the Company paid \$13,658 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 28 February 2007 and signed on its behalf by:

#### I F R Much

Chairman of the Remuneration Committee