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Annual Report and Accounts 2005

DELTA

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Financial highlights

£ million (except where otherwise stated)	2005 Before exceptional items*	2005 After exceptional items*	2004 Before exceptional items*	2004 After exceptional items*
Continuing operations				
Revenue	**242.0**	242.0	**200.6**	200.6
Operating profit	**20.5**	20.8	**14.8**	15.1
Profit (loss) for the year	**16.8**	(1.7)	**9.7**	10.0
Earnings (loss) per share (pence)	**9.3p**	(2.0)p	**5.0p**	5.2p
Continuing and discontinued operations				
Profit for the year		**94.5**		**24.0**
Profit for the year attributable to Delta shareholders		**53.4**		**17.3**
Basic earnings per share (pence)		**35.2p**		**11.4p**
Cash flow from operations before tax		**34.8**		**37.8**
Dividends per ordinary share (pence)		**3.5p**		**3.0p**
Equity shareholders' funds		**218.1**		**150.8**
Net assets attributable to Delta shareholders per ordinary share (pence)		**143.9p**		**99.7p**
Share price				
- High		**139.0p**		**103.5p**
- Low		**100.0p**		**77.5p**

* The reconciliations of profit and earnings per share before and after exceptional items and net assets attributable to Delta shareholders per ordinary share, are given on the consolidated income statement and in note 17 to the financial statements. Exceptional items are defined and explained in note 5 to the financial statements.

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Principal group and associated companies

During 2004 and 2005 the Group's strategic focus was significantly narrowed by reducing the number and diversity of the Group's businesses. The Group now has interests in three principal businesses: Galvanized Steel Products and Services, Manganese and Industrial Supplies.

Galvanized Steel Products and Services

Delta's Australian Galvanized Steel Products and Services businesses are held through Industrial Galvanizers Corporation Pty Ltd (incorporated in Australia) and provide hot-dip galvanizing services as well as fabricate galvanized steel products for local infrastructure, construction and mining projects.

Our worldwide galvanizing operations include nine hot-dip galvanizing plants in Australasia, five in Asia and five in the United States. Galvanizing provides a superior protection against the corrosion of steel products, and our facilities are designed to galvanize a variety of customers' products, including large structural steel, fabricated steel products and smaller manufactured steel products.

The Group's galvanized steel products businesses provide important base load for many of our galvanizing operations, and zinc by-products from the Group's galvanizing operations provide feed stock for AusZinc Metals & Alloys, the Group's Australian based business that recycles by-products to produce a variety of zinc alloys and chemicals, as well as a variety of zinc oxides for fertilizer and other applications.

Ingal Civil Products (ICP) fabricates safety barrier systems, including proprietary guardrail and end terminals for the Australasian market. With a market leading position, ICP has recently made investment in automated production equipment that will be commissioned at a single purpose site, with ICP focusing on the further development of the safety barrier business through proprietary designs and systems.

Ingal EPS fabricates lighting, power and telecommunication poles and towers for the Australasian and Asian markets with three production facilities in Australia and one in the Philippines. Ingal EPS's production capabilities are supported with a comprehensive in-house engineering and design service staffed with chartered professional engineers using the most technologically advanced design and engineering software.

Webforge is the Group's largest galvanized steel products business with five plants in Australasia and six plants in Asia. Webforge is the long-standing market leader in the production and sale of access systems and metal flooring, as well as expanded metal products, architectural sunscreen and drainage products, for industrial, commercial and civil applications.

The Group wholly owns all the businesses included in the Galvanizing segment other than the hot-dip galvanizing businesses located in Malaysia (70%), Vietnam (55%) and Indonesia (50%), and the Ingal Environmental Services (53%) business in Australasia. The Indonesian 50% investment is accounted for as a joint venture.

Principal group and associated companies

Manganese

The Group has two interests in Manganese related businesses: firstly, a 56% ordinary shareholding in Delta Electrical Industries Limited, the Johannesburg Stock Exchange listed company that wholly owns Delta EMD Investments Limited (Delta EMD); and secondly, a 49% ordinary shareholding in Manganese Metal Company (Pty) Limited (MMC). All three companies are incorporated in South Africa. MMC is accounted as an associate.

Delta EMD is a global leader in the production and sale of electrolytic manganese dioxide (EMD), a specialty chemical used in the production of consumer batteries. Delta EMD provides all the major global battery producers alkaline grade EMD from plants located in South Africa and Australia. Delta EMD's technical resource and experience, together with local access to high grade manganese ore, scale of production and operational know-how and efficiencies, enable Delta EMD to produce alkaline grade EMD cost competitively.

MMC is the largest global producer of electrolytic manganese metal with two plants in South Africa. Electrolytic manganese metal is the purest form of manganese and is used in the production of specialty steels and aluminium as well as the manufacture of electronic components. Fifty-one per cent of MMC's ordinary shares are controlled by the BHP Billiton group. Delta accounts for MMC as an associate.

Industrial Supplies

The Group's remaining Industrial Supplies interests include a 60% ordinary shareholding in Donhad Pty Limited (incorporated in Australia) as well as 100% shareholdings in Machin & Ewen Pty Limited (incorporated in Australia) and Investment Tooling International Limited (incorporated in United Kingdom).

Donhad is Australia's market leading producer of grinding media for the Australian mining and mineral industries and produces both forged and roll formed steel balls for use in the milling of ores. Donhad operates three production facilities in Australia and also produces specialty fasteners. Forty per cent of Donhad's ordinary shares are owned by the global leader in forged grinding media, the Scaw Metals Group (a member of the Anglo American plc group).

Machin & Ewen produces, imports and distributes metal fasteners for the Australian industrial market and is currently classified as held for sale. Investment Tooling International machines tools for the automotive, food packaging and general industrial markets in the United Kingdom, and remains the Group's only UK based business.

Chairman's statement

Overview

Delta made further real progress in 2005. Reflecting our strong emphasis on operating performance, profits from continuing operations before exceptional items were once again improved. At the same time, the Group's strategic focus was sharpened with further significant non-core disposals:

- Pre-tax profits from continuing operations before exceptional items increased from £12.6 million to £23.4 million, an increase of 86%. These results were achieved against a background of rising raw material prices across Delta's businesses, including for manganese ore, zinc, steel and natural gas. Todd Atkinson's review covers operations in some detail.

- An exceptional profit of £75.1 million was made on the disposal of the Group's South African Industrial Supplies businesses. The selling price achieved, following a highly competitive auction process, represented an excellent return for shareholders.

- Cash generated from operations before tax totalled £34.8 million, despite considerable working capital pressures across the business. Combined with proceeds from disposals, the Group had year end cash net of overdrafts of £172.6 million. However, some £39.0 million will be paid during 2006 to minority interest shareholders and in settlement of tax liabilities pertaining to the disposal of the Group's South African Industrial Supplies businesses.

- This year's annual results are the first prepared by the Group in accordance with International Financial Reporting Standards (IFRS), with prior year comparatives restated accordingly. Further details are provided in the Financial Review.

The Group's balance sheet now reflects the successful resolution of a number of Delta's 'legacy' matters relating to previously owned businesses. These have been managed rigorously, resulting in a release of surplus creditors and provisions no longer required (some £9.4 million in the year). The Group still awaits a decision on an expected fine following the European Commission's competition directorate investigation into allegations of anti-competitive behaviour among certain manufacturers of copper plumbing fittings - including the Group's former plumbing business. With respect to the Delta Pension Plan, the year end IAS 19 reported deficit reduced from £15.1 million to £3.5 million, with investment performance during the year outstripping declining bond rates. However, the triennial valuation of the Plan will be carried out as at April 2006, and important determinants of projected Plan liabilities, such as an assessment of actual Plan mortality experience, will be reviewed at that stage.

Priorities for 2006

The Group is now considerably less complex than it was, and our planned disposal program is mostly completed. The Board recognises the inefficiency of carrying significant net cash on the balance sheet, and is assessing the viability of a number of investment options. However, we do not intend to repeat Delta's past mistakes. Cash will only be invested in businesses we understand, and where we foresee credible returns for shareholders. Priority will therefore be given to expanding and strengthening our existing businesses which we understand well, and to related 'bolt-on' acquisitions. Fairly priced acquisitions do not grow on trees. The Board is focused on

Chairman's statement

securing the internal and external resources required to make early progress in seeking out opportunities. This is a key Board priority for 2006, alongside continuing to drive operating performance improvement in a highly competitive marketplace, and the ongoing review of the Delta Pension Plan position.

Board

I am pleased to welcome Kristen van Riel to the Board as non-executive director. He is President of the Executive Board of trustees of the Stern Family Foundation, Delta's largest shareholder, and replaces Jean-Laurent Nabet as their board nominee.

I would also like to welcome Andrew Walker to the Board as a non-executive director. We are already gaining considerable benefits from his broad experience and natural feel for industrial businesses such as Delta's.

On behalf of shareholders, I would like to thank Charles Fisher, who steps down following this year's AGM, for all his efforts and hard work. Charles has played an important role in driving change for the better during his time on the Board and we will miss his contribution.

An announcement regarding a new non-executive director to replace Charles will be made shortly.

Importantly, a search is also currently underway to recruit a Group Finance Director to the Board, and an announcement will be made in due course.

Dividend

The Board is recommending a final dividend of 2.5p per share (2004: 2.4p), resulting in a full year 2005 dividend of 3.5p (2004: 3.0p). At this level, the 2005 dividend is covered 2.7 times by earnings per share from continuing businesses before exceptional items. This level of cover should support a progressive dividend policy in future years, as well as enabling investment opportunities to be funded.

Steven Marshall, Chairman

Chief Executive's review

2005 Results

Profit for the year attributable to the Group's equity holders was £53.4 million (2004: £17.3 million), providing basic earnings per ordinary share attributable to equity shareholders of 35.2 pence (2004: 11.4 pence).

The Group's profit included several exceptional items including the £75.1 million profit realised on the sale of our South African Industrial Supplies businesses by Delta Electrical Industries Limited (DEI). Before exceptional items the Group's profit improved by 19% to £27.3 million (2004: £22.9 million), providing earnings per share of 13.9 pence (2004: 10.6 pence).

The Group's operating profit from continuing operations increased by 38% to £20.8 million (2004: £15.1 million) on revenue that increased by 21% to £242.0 million (2004: £200.6 million), and the Group's profit from continuing operations before exceptional items improved by 73% to £16.8 million (2004: £9.7 million).

The Group's cash generated from operations before tax totalled £34.8 million (2004: £37.8 million), and the Group's year end cash net of overdrafts balance increased from £42.0 million to £172.6 million. This includes the South African Industrial Supplies disposal proceeds held by DEI, £39.0 million of which will be paid to DEI's minority shareholders and used by DEI for the payment of capital gains tax and secondary tax on companies.

Review of 2005 Trading

Galvanized Steel Products and Services

Our Galvanized Steel Products and Services businesses performed exceptionally well during the year. Operating profit improved by 31% to £16.4 million (2004: £12.5 million) on revenue that increased by 16% to £145.1 million (2004: £124.7 million). The improvement was achieved through focus on our existing businesses, exceptionally good market conditions in Australia and effective management. 2005 operating profit was flattered by enhanced margins on products and services sold from lower priced stocks as selling prices improved with the substantial increases in the price of steel and zinc during the period. The sale of a former site and the sale and leaseback of an operating site also provided £0.3 million of exceptional profit.

Our nine hot-dip galvanizing plants in Australia performed very well during the year and continued to improve their market positions and operational efficiencies. The redevelopment of one of our two plants in Brisbane was commenced to provide additional capacity in that growing market, and the investments necessary to improve our operational efficiencies in Melbourne are underway. Further success should be possible by providing the best possible customer service, which will require further efficiencies as well as additional investment in our existing plants. Considerable resource also was committed during the year to improve further our environmental systems and practices, which remain an important factor determining the business's on-going success.

Our Australian hot-dip galvanizing operations are complemented by our zinc reclamation business AusZinc Metals & Alloys, which reclaims and refines zinc alloys and oxides from galvanizing by-products. With much of AusZinc's revenue generated from the sale of zinc oxide to agricultural fertiliser producers, revenue improved during 2005 following some relief from Australia's longstanding drought. The value of AusZinc's alloys and oxides also

Chief Executive's review

improved with increased zinc prices, and AusZinc sold extra stock to offshore users. The Australian fertiliser market remains uncertain due to drought and on-going consolidation, and the price of zinc remains volatile. AusZinc's continued success will depend upon the successful management of those dynamics.

Ingal Civil Products (ICP) enjoyed particularly robust demand for its safety barrier systems with substantial expenditure on highway refurbishment and safety and exceptional volumes from large projects. ICP remains the market leading supplier of steel safety barrier systems and during the year made a substantial investment in the purchase of an automated rolling mill to allow more efficient production. Further investment also will be made in the development and licensing of additional proprietary systems. At year end ICP divested its underground corrugated steel structures business and during 2006 ICP will relocate its safety barrier production to a better facility. ICP's existing production facility is located in the outskirts of Sydney and has appreciated substantially in value. The site will be sold and a provision for required environmental remediation was charged to operating profit during 2005. Whilst ICP's market position remains very good and should be strengthened, we do not anticipate the same exceptional volumes from large projects during 2006.

Ingal EPS enjoyed robust demand during the year for its power, telecommunication and lighting pole products. Operational efficiencies and scale allowed Ingal EPS to maintain its market-leading position notwithstanding the threat of imports prompted by the strong Australian dollar and the relatively high cost of domestic steel. Ingal EPS also continues to identify and develop further opportunities to offer value adding products and services. During the year Ingal EPS worked closely with the Group's Philippines operation to source certain pole products from that facility and during 2006 Ingal EPS will assist that operation's efforts to develop improved market positions in the Philippines' pole and tower markets, as well as achieve further operational efficiencies. Ingal EPS also has successfully sourced certain of its standard products from China. Knowledge of the Australian market, the provision of value adding products and services and flexibility in production and sourcing of products provide Ingal EPS a solid platform for further development.

Since acquisition in 2003, Webforge has performed well, providing both profit growth and cash flow. The Australian market remains strong and the Chinese market, whilst becoming more competitive, continues to grow. Webforge's other Asian markets remain less certain but provide adequate volumes, and our market development efforts in both the Middle East and Vietnam have progressed. Webforge management have also successfully introduced complementary expanded metal products in Australia and have identified additional products that can be bought and resold through Webforge's well-established sales channels. An additional production line has been purchased and will be commissioned in China during the year, and Webforge management are developing further opportunities to utilise their several manufacturing sites cost-effectively.

As reported previously, our Asian galvanizing operations have not developed the same scale, market position or synergies we enjoy in Australia, and market conditions in Asia for hot-dip galvanizing services continue to be extremely competitive, partly due to overcapacity. Consequently the performance of our Asian galvanizing operations deteriorated during the year and

Chief Executive's review

remains unsatisfactory. Several possible means of improving the strategic position of these businesses were considered during the year and none were immediately viable. We continue to explore the best possible means to improve the value of these investments.

Whilst market conditions in the US for hot-dip galvanizing services also remain extremely competitive, again partly due to overcapacity, our US management team succeeded during the year in improving their market position. They also gained market share providing additional scale and efficiencies. These improvements were offset by substantially increased zinc and natural gas costs, providing a year end result behind the prior year. The businesses are however better positioned to compete for market share and to realise further operational efficiencies.

Delta EMD

Delta EMD made further important progress during the year expanding its global customer base and now supplies all the major global battery producers. With large and well invested plants in South Africa and Australia, as well as proximity to high grade manganese ore, Delta EMD continues to enjoy a competitive cost structure. However, as the result for the year demonstrates, unfavourable exchange rates, unattractive selling prices and substantial input cost increases prevented improved margins and profit.

Delta EMD's volumes increased substantially during the year through market share gains and continued market growth. Whilst selling prices firmed in most markets, Delta EMD's sales mix and a further weakening of the US dollar against local currencies resulted in a modest reduction in local currency selling prices. Revenue increased by 34% from £33.8 million to £45.4 million.

Input costs increased substantially during the year, with the Japanese benchmark price for manganese ore increasing by more than 60% at mid-year. The increased input costs, together with marginally lower selling prices and adverse exchange rates, provided very little margin on the additional volumes enjoyed by Delta EMD during 2005.

Delta EMD's 2005 operating profit was £3.2 million (2004: £3.2 million). 2004 operating profit included £2.9 million of foreign exchange gains and foreign exchange contract profits, whilst Delta EMD's 2005 operating profit was enhanced by foreign exchange gains of £0.9 million, a £1.0 million favourable provision adjustment, and £0.4 million of insurance premium rebates. Excluding those non-recurring items, Delta EMD's 2005 underlying operating profit of £0.9 million reflected improvement over 2004 underlying operating profit of £0.3 million.

Sales volume exceeded production during 2005, with a resulting reduction in Delta EMD's remaining stock. The planned reduction in Delta EMD's working capital however was delayed with increased debtors associated with substantially increased revenue and by the increased per unit cost of stock. Working capital reductions should provide additional cash flow during 2006.

On 1 November 2005 Michael Renehan was appointed Managing Director of Delta EMD. Michael joins the Group with important experience from the chemicals industry, most recently as Chairman and CEO of the Australian subsidiary of ATOFINA, the petrochemicals / chemicals division of TOTAL, the Franco-Belgian oil company. Michael's market and customer development

Chief Executive's review

experience should facilitate Delta EMD's renewed effort to develop customer relations built upon improved value propositions.

The demand for batteries and EMD continues to grow globally as demonstrated by Delta EMD's substantially increased volumes sold. Growth in demand in Asia remains particularly strong and the historic variances in selling prices across geographies are reducing, particularly with growing demand for alkaline grade EMD in developing markets. Alkaline grade production capacity outside of China has not increased for several years, and whilst additional capacity has been commissioned in China, the volumes of alkaline grade EMD exported from China to the United States and Europe did not increase substantially during 2005.

Delta EMD remains committed to improving operating efficiencies as well as improving the quality of products and service provided to battery producers. We also continue to believe that superior products and service provide market leading battery producers additional value. Whilst the impact of the exchange rates that affects Delta EMD's margin and profit remains unique to Delta EMD, current selling prices and increased input costs generally affect the industry as a whole, providing poor returns and discouraging investment in the additional capacity required to meet growing demand.

Manganese Metal Company (49%)

The global market for electrolytic manganese metal was robust during 2004 and early 2005, with exceptional demand from global steel and aluminium producers and disrupted supply of competitive product from China. Supply from China resumed during 2005, as Chinese producers did not suffer disrupted supply of electrical power. Chinese producers also accelerated production and export of electrolytic manganese metal prior to the repeal of the long-standing Chinese export rebate, resulting in oversupply and a substantial decline in selling prices. At mid-year Manganese Metal Company (MMC) suffered a decline in volume and selling prices, and the US dollar : South African rand exchange rate remained adverse throughout the year. Consequently, improved trading during the first half was more than offset by poor trading during the second half.

The production capacity added in China during the past five years has resulted in substantial overcapacity in the global electrolytic manganese metal market, which is unlikely to be fully utilised at any time in the near future. Whilst disrupted production remains a possibility in China due to uncertain supplies of manganese ore and electrical power, we believe the excess production capacity available in China is likely to compensate for any disruption. Consequently, whilst MMC continues to supply certain higher valued niche markets and remains the only supplier outside of China, we do not anticipate the return of selling prices similar to the first half of 2005, which are essential to MMC's profitability at current exchange rates. Consequently, MMC has decided to suspend production at the less efficient of its two production facilities. The costs of suspending production and idling the plant will be borne by MMC during 2006.

MMC's investment in plant and equipment as well as additional working capital, together with substantial investment in the development of a new residue disposal site, required substantial cash resources during the past three years. At year end, MMC's outstanding loans from third parties totalled £11.7 million, and little additional financing was available to the company. MMC management anticipates realising additional cash through the liquidation of working capital at the idled facility and expects to supply higher valued niche products from their remaining production plant. Their plan is likely to be viable so long as exchange rates do not deteriorate further.

Given changed market conditions, the Group undertook an impairment review of MMC's assets as at year end and we have consequently reduced our share of MMC's net assets reflected on the Group's balance sheet to £nil, resulting in an £8.5 million charge to 2005 profit. That charge was added to the Group's 49% share of MMC's other 2005 post-tax profit and revenue, which were £0.2 million and £20.4 million, respectively, compared to the Group's 49% share of MMC's 2004 post-tax loss and revenue, which were £(2.3) million and £22.2 million, respectively.

Industrial Supplies

During the year we completed the disposal of DEI's South African Industrial Supplies businesses as well as our Australian Cutting Edges and AustCast businesses. The South African businesses were sold to a private equity consortium that included black economic empowerment partners and the Australian businesses were sold to management. The Group realised a £74.8 million profit on the sale of these businesses.

During December 2005 DEI made a partial distribution of the South African Industrial Supplies disposal proceeds by paying a ZAR 6 per share special dividend. The special dividend payment made by DEI totalled ZAR 295 million (approximately £25.6 million) and was accompanied by a ZAR 36 million (approximately £3.2 million) payment of secondary tax on companies. The Group retained ZAR 166 million (approximately £14.5 million) of the special dividend paid by DEI during December 2005. The remainder of the South African Industrial Supplies disposal proceeds will be paid to DEI shareholders during March 2006 by way of a ZAR 14 per share special dividend. The amount of this dividend has been determined after making adequate provision for the future funding requirements of Delta EMD. The second special dividend payment will total ZAR 688 million (approximately £62.9 million) and will be accompanied by a ZAR 82 million (approximately £7.4 million) payment of secondary tax on companies and ZAR 49 million (approximately £4.2 million) payment of capital gains tax. Both payments of secondary tax on companies and the capital gains tax have been included in the Group's 2005 tax expense. The Group will retain ZAR 388 million (approximately £35.5 million) of the total payments made by DEI during March 2006.

Operating profit from our continuing Industrial Supplies businesses improved by 53% during the year from £3.4 million to £5.2 million on revenue that increased by 22% from £42.1 million to £51.5 million.

Robust demand for grinding media in Australia provided Donhad improved volumes sold and revenue during the year, contributing to improved operating profit. 2005 operating profit was also enhanced by the sale of grinding media produced with older steel stocks that were purchased prior to substantial steel price increases. Such profit cannot be expected to recur. During the year Donhad commissioned a rebuilt upsetter forge that will increase Donhad's total SAG ball production capacity, and investment in additional heat treat capacity is under review. We believe further development of Australia's mineral mining activities is likely to provide additional demand for the grinding media products produced by Donhad. Whilst Donhad remains the market leading Australian producer of forged ball grinding media and enjoys volume-related efficiencies, profitability remains dependent upon competitive steel supply, particularly with the strong Australian dollar and lower Chinese steel prices encouraging grinding media imports from China. In order to maintain attractive margins, Donhad will continue to differentiate product quality and service through further investment in technical development. Whilst management remains confident in their ability to provide superior products and services, Chinese imports are likely to disrupt the market in the short term.

The results from Investment Tooling International (ITI) and Machin & Ewen also improved during the year with Machin & Ewen continuing to enjoy strong demand for fasteners from Australia's industrial, civil and manufacturing sectors. ITI's loss was reduced during the year as UK demand for tool-making improved. ITI will continue to pursue higher value niches within the UK market, better utilising their particular equipment and technical competence.

The disposal of Machin & Ewen to a strategic buyer supported by private equity financing failed to complete at year end, and the business is now being marketed for disposal. Consequently, the 2005 result from Machin & Ewen has been reported within discontinued operations.

Cash Flow and Balances

Net cash from operating activities before tax totalled £34.8 million (2004: £37.8 million). Working capital requirements increased during the year by £10.2 million and included £2.7 million of additional working capital requirements at our South African Industrial Supplies businesses which were recovered through a purchase price adjustment. The working capital requirements of our continuing operations also increased during the year with additional revenue as well as the higher value of steel and zinc.

Capital expenditures included the expenditures made on the redevelopment of an Australian galvanizing facility, ICP's new roll forming equipment and Donhad's new upset forge, and totalled £8.0 million compared to depreciation of £10.3 million.

The proceeds realised on the sale of businesses totalled £119.7 million, substantially increasing the Group's year end cash balance net of overdrafts from £42.0 million to £172.6 million. Our cash balance net of overdrafts was enhanced by proceeds from the sale of surplus properties totalling £4.2 million as well as by £4.2 million of proceeds from sale and leaseback transactions.

The Group's net cash balance will be reduced by approximately £27.4 million of special dividends paid during March 2006 to minority shareholders of DEI, as well as payment during 2006 of approximately £4.2 million of capital gains tax and approximately £7.4 million of secondary tax on companies related to the sale of the South African Industrial Supplies businesses and the distribution of the remaining disposal proceeds. Consequently, if restated to exclude those amounts, the Group's year end cash balance net of overdrafts would be approximately £133.6 million.

The portion of the Group's reported net cash balance that was unrestricted and otherwise immediately available to the Group in wholly-owned subsidiaries increased during the year from £36.2 million to £76.0 million. That portion will increase further upon the

Group's receipt of approximately £35.5 million of special dividend from DEI during March 2006.

The Group's cash balance may be reduced during 2006 by the likely imposition of a fine following the European Commission's investigation of the copper fittings industry, as described below.

Delta Pension Plan

The Delta Pension Plan's IAS 19 net deficit at year end was £3.5 million, down from £15.1 million at the end of the prior period. The movement reflects favourable investment performance, which more than offset an increase in the plan's IAS 19 liability from £620.8 million to £667.0 million. The increased liability reflects the use of a lower discount rate (4.8% vs. 5.3%) as a consequence of the reduction in AA corporate bond rates during the period.

The pension plan assets remain invested in accordance with the trustee's investment strategy, which provides for a 70% target allocation to fixed income investments and the remainder invested in UK and overseas equities, property and cash. At year end approximately 70% of the plan's fixed income investments were invested in UK Gilts, approximately 22% in non-UK fixed interest government bonds, approximately 7% in UK index linked government bonds and approximately 1% in UK corporate bonds.

Whilst the plan remains relatively well funded and conservatively invested, the scale of the plan remains large in comparison to the Group, with the plan's year end gross liability determined under IAS 19 being substantially larger than the Group's market capitalisation and net asset value.

The triennial actuarial valuation of the Delta Pension Plan will be undertaken as at 5 April 2006 in accordance with the scheme funding regime introduced by the Pensions Act 2004. Guidance suggests that the Pensions Regulator expects such valuations to adopt prudent assumptions, taking into account the plan's investment strategy and asset allocation. An important factor in determining the triennial valuation will be the selection of appropriate mortality assumptions. As reported previously, the actuarial valuation completed as at 5 April 2003 (and all subsequent IAS 19 valuations) assumed that the mortality experience of the plan members would be in accordance with the AM80 / AF80 and PMA80C10 / PFA80C10 mortality tables. This was consistent with the results of an investigation into the mortality experience of the plan which involved a review of mortality data for a five year period. Given the size of the plan's participant population, the review of the actual mortality data provides a factual basis for determining the most appropriate mortality tables. Whilst generally the continued use of older mortality tables might be questioned, the 2003 review of the plan's actual mortality experience confirmed such use was reasonable for the 2003 valuation of the Delta Pension Plan. The plan's participant population also remains much older than the general population, with the average age at year end of pensioners and deferreds being 71 and 49, respectively. The plan trustee has commenced the gathering of most recent mortality data so that it can be reviewed for purposes of the 2006 triennial valuation.

The Group and plan trustee continue to consider all possible means to reduce the financial burden borne by the plan. Discretionary early retirements are not normally being granted at the current time, and early retirements are being reviewed for assurance that future early retirements can be granted on a basis that is cost neutral to the plan. The plan trustee also is taking steps necessary to manage costs closely and ensure the best possible financial performance. A

Chief Executive's review

program also is underway to reduce administrative costs by commuting very small pensions.

The Group has engaged advisors to consider other possible means of reducing the risks associated with the pension plan. Whilst the foregoing would require investment, they could reduce the size of the plan liabilities and reduce the possible volatility of those liabilities.

Other Matters Related to Disposed Businesses

During the year several other matters related to disposed businesses were resolved successfully, requiring the payment of £1.5 million, considerably less than expected. At year end the provisions for such matters were reviewed carefully and reduced by £8.6 million to £8.4 million, together with releases of £0.8 million of creditors considered no longer required. All freehold properties remaining from disposed businesses were sold during the year, realising £3.5 million of cash proceeds.

As reported previously, the use of Delta Insurance Limited (DIL) as a captive insurance company was discontinued some time ago. We successfully transferred DIL's remaining liabilities to an insurance carrier at year end and released £1.1 million of the provision remaining for such liabilities. During 2006 we will wind up that entity and release approximately £2.0 million of previously restricted capital to the Group.

The European Commission's competition directorate investigation into allegations of anti-competitive behaviour among certain manufacturers of copper plumbing fittings, including the Group's former plumbing fittings business, continued during the year with the issuance of a Statement of Objections during September 2005. Notwithstanding the Group's subsequent disposal of that business, the Group retains responsibility in relation to the Commission's investigation and is cooperating fully with the Commission. A response to the Statement of Objections, together with further supporting evidence, was provided to the Commission before year end. The investigation is expected to result in a fine. Because the Commission has considerable discretion in imposing fines, particularly against parties who have sought leniency and cooperated, estimating the level of fine that might be imposed presently is not possible. Consequently, no provision has been made except for legal expenses expected to be incurred in connection with the investigation. A substantial fine for the wrongful conduct of the former management of a former business would significantly hinder our ongoing efforts to redevelop the Group through reinvestment, which is necessary to strengthen the Group's covenant to the Delta Pension Plan.

2006 Prospects

The Australian economy remains strong at present, with continuing investment in infrastructure and mining, and our Australian Galvanized Steel Products and Services businesses are well positioned for further development. We do not however anticipate the same exceptional volumes certain businesses enjoyed during 2005. Nor do we anticipate the enhanced margins afforded by the rapid increases in steel and zinc prices experienced during 2005. Underlying volumes and margins should remain good and we anticipate further operational efficiencies at our Australian operations. Trading at our Asian galvanizing plants is likely to remain difficult and our US galvanizing plants should further improve their market positions. Profit at all of our galvanizing operations will depend upon higher selling prices compensating for further increased zinc and natural gas costs.

Chief Executive's review

We expect improved selling prices for EMD during 2006 as well as strong demand. We believe manganese ore prices are likely to decline after the first half affording some relief from the substantial increases over the past several years. Delta EMD also will focus on further operational efficiencies and cost savings. However, further price increases and more favourable exchange rates are required for Delta EMD to provide attractive returns.

We expect MMC's selling prices to decline further due to Chinese competition. MMC's volume sold and revenue will decline during 2006 with one production plant idled, and management plan to reduce costs and improve cash flow.

The Australian market for grinding media remains strong and should grow as new mines are developed. Whilst Donhad's 2006 volumes sold and revenue are likely to be affected by further Chinese competition and Donhad's 2006 profit will not be enhanced by the sale of grinding media produced with lower cost steel stocks, we continue to believe Donhad's longer term prospects are attractive.

Strategic Development

During 2004, our focus was on the first of three planned stages for the Group's improved performance and development. Our priorities were to improve the Group's financial performance by improving the Group's underperforming businesses, reducing Group-wide overhead costs, and improving the Group's cash flow through careful investment and working capital management. Those objectives were largely achieved during 2004 and further improvements were made during 2005 as reported above.

Our focus during 2005 was to narrow the Group's strategic focus by reducing our geographic spread as well as the diversity of our business portfolio, thereby simplifying the drivers that determine the Group's success and facilitating more focused management. The disposals reported above have largely achieved those objectives, and our Australian Galvanized Steel Products and Services businesses, Delta EMD and Donhad are well positioned for development as noted above.

During 2006 the Group will invest in the further development of our Australian Galvanized Steel Products and Services businesses. The opportunities for doing so include investment in additional capacity and improved operational efficiencies, as well as bolt-on acquisitions to expand our product ranges and geographic markets within Australasia.

Whilst opportunities for investment in additional capacity at Delta EMD's existing plants remain, for the reasons noted above such investment is not immediately attractive. We also believe the longer term success of the EMD industry requires participants having the scale necessary to develop and provide improved products and services and better value propositions. Such scale could best be achieved through acquisition or merger; consequently the Group will explore those possibilities during 2006. We also will explore investment in businesses that produce related or complementary products or that would utilise the Group's existing assets and competencies.

The Group is also mindful of the other likely requirements for cash during 2006, including the likely payment of a fine following the EC investigation of the copper fittings industry and payment of other legacy liabilities. Whilst the year end IAS 19 valuation of the pension plan liabilities determined a reduced deficit and would not indicate a substantial deficit for the Delta Pension Plan following the actuarial valuation, the April 2006 actuarial valuation will be determined under a different methodology, will involve a review

Chief Executive's review

of the mortality assumptions and will reflect further movement in asset values. Restructuring the plan liabilities and reducing the risks associated with the plan however may require immediate investment from the Group's capital.

The Group's current investment opportunities as well as the uncertainty of other requirements for the Group's capital dictates that the Group should maintain a conservative balance sheet for the time being. Any substantial return of capital to shareholders cannot be achieved efficiently and would not be desirable until the scale of the pension plan and the risks associated therewith are reduced and the Group's businesses are further developed through investment.

Todd Atkinson, Chief Executive

Financial review

Transition to International Financial Reporting Standards ('IFRS')

These annual financial statements are the first prepared by the Group in accordance with IFRS, with comparatives restated accordingly. As indicated in our 2004 Annual Report and Accounts, the main areas of difference for the Group under IFRS compared with previous UK GAAP are:

- IAS 19 'Employee Benefits': The Group's defined benefit pension plans were brought on balance sheet for the first time with effect from 3 January 2004. Prior to the implementation of IFRS, the Group accounted for its pension funds under SSAP 24 and the transitional disclosures of FRS 17. To improve visibility of the financial impact of these plans, the Group has chosen under IAS 19 to reflect the full impact of actuarial gains and losses as they arise within the Statement of Recognised Income and Expense. Additionally, pension-related interest income and expense items have been recorded gross on the face of the income statement within other gains and losses and finance costs respectively.

- IAS 21 'The Effects of Changes in Foreign Exchange Rates': The functional currency of Delta EMD under IFRS was determined to be the South African rand and Australian dollar for the South African and Australian operations respectively. Under UK GAAP the functional currency of both operations was determined to be the United States dollar.

- IAS 10 'Dividends': Dividends are reported under IFRS when declared rather than in the period to which they relate.

- IAS 12 'Income Taxes': In some cases deferred tax needs to be provided on the unremitted earnings of subsidiaries, associates and joint ventures.

Reconciliations between previously reported numbers and those under IFRS are contained in note 41.

Income Statement - Presentation

The Group's 2005 results include several exceptional items. These items relate to the disposal of the Group's South African Industrial Supplies businesses (including the subsequent distribution of proceeds), the impairment of the Group's share of MMC's net assets, profits on sale of assets and adjustments to provisions for discontinued businesses.

To provide additional clarity to the performance of the continuing Group, these items have been separately disclosed as exceptional items on the Consolidated Income Statement. Additional information regarding these items is contained in note 5 to the consolidated financial statements.

Additionally, the trading results of the one remaining wholly-owned Australian Industrial Supplies business held for disposal has been included within discontinued operations.

Income Statement - Continuing Operations

Profit on sale of fixed assets

During the year the Group sold and leased back two sites in Australia, one of which related to the Group's continuing operations. A profit on sale of £0.3 million (2004: £0.3 million, realised on the sale and leaseback of the Australian vehicle fleet) resulted, which has been reported as an exceptional item.

Impairment

As discussed in the Chief Executive's review, the Group impaired the carrying value of its share of MMC's net assets to £nil,

Financial review

consequently resulting in an impairment charge to the income statement of £8.5 million (2004: £nil). A deferred tax liability booked in previous years of £0.6 million (2004: £nil) related to MMC's unremitted earnings has now been released. The impact of both items have been included within exceptional items on the face of the Consolidated Income Statement.

Finance costs

The Group used foreign exchange contracts both before and after completion of the disposal of the Group's South African Industrial Supplies businesses to protect the sterling value of the assets to be sold and the disposal proceeds (which remain held in South African rand). As the South African rand appreciated against sterling during the period of the hedging, the Group suffered losses totalling £5.9 million (2004: £nil) upon these foreign exchange contracts. These losses were compensated by an increase in the sterling value of the proceeds. Of the total losses of £5.9 million, hedge accounting treatment was permitted for £2.4 million of the losses (principally those losses which arose following completion of the sale). These £2.4 million of losses for which hedge accounting was permitted are accounted for within hedging and translation reserves within equity. The remaining £3.5 million of losses was included in the Group's finance costs.

The Group's finance costs also included £4.3 million of interest paid on cash borrowings and £32.3 million of finance costs determined under IAS 19 for the Delta Pension Plan.

Taxation

The Group's tax expense disclosed within continuing operations includes two significant items related to the distribution of proceeds from the disposal of the Group's South African Industrial Supplies businesses, as described below. Also included is a tax credit relating to the reversal of a deferred tax liability on the unremitted earnings of MMC, as described previously. The three items together have been treated as exceptional items on the face of the Consolidated Income Statement.

To distribute the proceeds from the disposal of the Group's South African Industrial Supplies businesses, DEI paid an initial special dividend of ZAR 6 per share in December 2005, which attracted a liability for South African Secondary Tax on Companies (STC) totalling approximately £3.2 million (2004: £nil), which is disclosed as an exceptional item. Of this charge, approximately £1.4 million (2004: £nil) related to minority interests and was accounted for accordingly.

On 23 February 2006 the DEI Board declared a ZAR 14 per share special dividend being the final distribution of proceeds from the disposal. That distribution will also attract STC. Notwithstanding the distribution taking place in 2006, IFRS requires the Group to charge to tax expense in 2005 its share of the STC resulting on that distribution, which totalled approximately £4.2 million (2004: £nil).

Excluding the aforementioned items and the deferred tax credit re MMC, the group's effective tax rate for 2005 was 28%. The 2004 effective tax rate benefited from the release of a £0.6 million deferred tax liability related to the Group's interest in Cobra – excluding this item the 2004 effective tax rate would also have been 28%. Both the 2004 and 2005 tax charges benefited from credits relating to prior years - in particular a £0.6 million tax provision release in 2004 upon the successful resolution of a historical tax dispute in South Africa, and a tax refund of £0.6 million obtained in 2005 in Australia. Without these credits relating to prior year activities, the effective tax charge for both 2004 and 2005 would have been higher.

Income Statement - Discontinued Operations

The Group's £96.2 million of profit from discontinued operations (2004: £14.0 million) included an exceptional profit of £74.8 million realised on the sale of businesses including our South African Industrial Supplies businesses (2004: £1.7 million loss on sale of the Group's interest in Cobra), together with £9.4 million (2004: £1.3 million) of favourable adjustments to provisions and creditors related to discontinued operations and £1.5 million (2004: £1.3 million) of profit on sale of fixed assets from discontinued operations. These items have been treated as exceptional items in the Consolidated Income Statement. Further details of the business disposals are included in the Directors' report.

Balance Sheet

The assets and related liabilities of Machin & Ewen, the Group's Australian Industrial Supplies business held for disposal, have been reclassified within the balance sheet as assets held for sale. In accordance with IFRS, 2004 balance sheet comparatives have not been restated.

Group Cash Flow and Balances

Dividends paid to minority shareholders totalled £14.7 million (2004: £3.9 million), £11.1 million of which related to the special dividend paid by DEI in December 2005.

During the year the Group completed the following significant fixed asset disposals:

- two UK surplus properties were sold for consideration of £3.5 million;
- two sites in Australia were sold and leased back for total consideration of £4.2 million, and
- a former galvanizing site in Australia was sold for £0.7 million.

Effect of exchange rates

The impact of the translation of net assets on reserves was a credit of £11.5 million (2004: £3.5 million charge), primarily reflecting the appreciation during the year of the Australian and US dollars, together with the 2004 and 2005 year end South African rand exchange rates being substantially stronger than the average rate during 2005 at which the income statement is translated into sterling. As noted previously, under IFRS the functional currency of Delta EMD has been determined to be the Australian dollar and South African rand, whereas under UK GAAP the functional currency of both operations was the US dollar. Consequently, the translational foreign exchange profile of Delta EMD has changed to those currencies under IFRS.

Tax losses

The accumulated losses reported by the Group for tax purposes in various tax jurisdictions include the following, most of which were incurred by disposed businesses. The following figures are subject to audit by tax authorities and do not include amounts recognised as deferred tax assets that are expected to be utilised in the near future.

Country	Tax losses in £ million
Germany	93
United Kingdom	29
United States	11
Other jurisdictions	1

Financial review

The future use, if any, of these accumulated losses will depend upon applicable tax rules and regulations, and upon the Group generating appropriate taxable income in those countries. Consequently the figures include losses which the Group will be unlikely to utilise in the future.

Treasury policies

The Group's fundamental treasury policy remains one of risk management and control, and not to undertake speculative transactions. Group treasury does not operate as a profit centre, and all activities are closely monitored by the Group Treasury Committee, which has a mandate to make recommendations to the Board on matters of treasury policy and to implement policies approved by the Board.

Material currency exposures arising from trading transactions at most of the Group's businesses are covered as they arise. Delta EMD and our associate Manganese Metal Company do not cover material currency exposures. During 2004 Delta EMD benefited from foreign exchange contracts purchased before October 2003, at which time Delta EMD discontinued all forward cover. All such contracts expired during 2004.

The sterling value of operating profits arising in other currencies also are not hedged. Consequently, the sterling value of overseas profits remains subject to currency exchange movements. The US dollar was used as the functional currency for MMC.

The Group does not normally use net investment hedging to protect the sterling value of its non-sterling assets. However the Group did hedge to protect its share of the sterling value of the assets and proceeds from disposal of the South African Industrial Supplies businesses.

Group treasury monitors interest rate exposures. At present the Group has no significant interest rate exposures, and consequently the Group has no outstanding interest rate hedges.

Due to the large cash balances held by the Group, the Group is exposed to credit risks with counterparty banks. In particular, the Group has cash balances with banks located in the Republic of South Africa, Australia, China and the United States: and consequently has an exposure to those banking sectors. The balances are held with large commercial banks.

Board of directors

Steven Marshall
Non-executive Chairman and Chairman of the Nominations Committee

Steven Marshall (49) was appointed Chairman in March 2005. He joined the Board as a non-executive director in April 2004. Steven was Executive Chairman of Queens Moat Houses plc until October 2004. He is a former Group Chief Executive of both Railtrack Group plc and Thorn plc, having also been Group Finance Director at each company. Steven is a non-executive director of Balfour Beatty plc, the engineering and construction group, and of Southern Water, the regulated public utility, and is a Fellow of the Institute of Chartered Management Accountants.

Todd Atkinson
Chief Executive

Todd Atkinson (49) was appointed Chief Executive and joined the Board in July 2003. Previously he was President of Delta America Inc. before becoming the Group's Director of Corporate Development and Legal Affairs in 2000. Todd is also non-executive Chairman of Delta Electrical Industries Limited.

Charles Fisher
Non-executive Director, Senior Independent Director and Chairman of the Remuneration Committee

Charles Fisher (56) was appointed a non-executive director in June 2000. He has a background in property and building materials. He is Chairman of Country Homes and Gardens plc. He was Chairman of Mowlem plc until June 2005, a non-executive director of Baggeridge Brick plc until February 2005 and a non-executive director of Travis Perkins plc until April 2004.

Andrew Walker
Non-executive Director and Chairman of the Audit Committee

Andrew Walker (54) was appointed a non-executive director on 11 May 2005. He is a non-executive director of API Group plc, Manganese Bronze plc, Halma plc, Porvair plc, Fountains plc and Ultra Electronic Holdings plc. He is also Chairman of Bioganix Limited. His career has also included periods as Group Chief Executive of McKechnie plc and South Wales Electricity plc.

Kristen van Riel
Non-executive Director

Kristen van Riel (55) was appointed a non-executive director on 30 January 2006. He was a founding partner of the Paris law firm SALANS, then joined the New York law firm Wilkie Farr & Gallagher as a partner and member of the Executive Committee from 1989 to 1996. He was then Directeur Général of Sotheby's France and a director of Sotheby's. He is the managing director of IRR Capital Limited and the President of the Executive Board of trustees of the Stern Family Foundation, substantial shareholders of Delta plc.

Directors' report

The directors of Delta plc submit their report together with the audited financial statements for the year ended 31 December 2005.

Principal activities, business review and future developments

The Chairman's Statement, Chief Executive's review, Financial review, Corporate social responsibility report, corporate governance report, directors' remuneration report and details of the Board of directors of Delta plc, form part of the Directors' report. Information about the Group's principal activities, financial performance and likely future developments are to be found in those sections.

Dividends

The directors declared an interim dividend of 1.0p (2004: 0.6p) per ordinary share which was paid on 5 December 2005. They now recommend a final dividend of 2.5p (2004: 2.4p) per ordinary share making a total for the year of 3.5p (2004: 3.0p).

Greenwood Nominees Limited, as nominee for Bedell Trust Limited, the trustee for the Delta plc Employee Share Ownership Trust, has waived its partial right to dividends (except for £0.001 per share) payable by the Company. The total amount waived during the year was £12,645.

Disposal of businesses

Pursuant to the circular to shareholders dated 28 July 2005, the Group completed the disposal of its South African Industrial Supplies businesses on 30 September 2005 to a consortium comprising Ethos Private Equity Limited, Actis Africa Fund 2 LP, Old Mutual Life Assurance Company (South Africa) Limited and black economic partners Sphere Holdings (Proprietary) Limited and AKA Capital (Proprietary) Limited. Net proceeds received from the sale totalled £112.0 million after allowing for expenses pertaining to the sale. Following the write-off of capitalised goodwill, applicable taxes, and cumulative translation differences, a post tax gain on sale of £75.1 million resulted, of which £36.3 million was attributable to minority interests. Results up to the date of sale and the gain on sale have been reported within discontinued operations.

Effective 30 September 2005 the Group sold its AustCast business in Australia to a management-led buyout team. Net proceeds from the sale totalled £1.6 million, of which £0.6 million is due to be received by the end of 2007. There was no gain or loss on the disposal. AustCast was previously reported as part of the Industrial Supplies business segment, and has been reported up to the date of sale within discontinued operations.

Effective 30 November 2005 the Group sold its Cutting Edges business in Australia to a management-led buyout team. Net proceeds from the sale totalled £5.7 million, of which £0.4 million is due to be received by the end of 2007. There was a loss on the disposal of £0.3 million. Cutting Edges was previously reported as part of the Industrial Supplies business segment, and has been reported up to the date of sale within discontinued operations.

Directors' report

Disposal of businesses (continued)

Effective 30 December 2005 the Group sold its Australian underground corrugated steel structures business (UCSS) to Atlantic Industries Limited. Net proceeds from the sale totalled £0.9 million. There was no gain or loss on the disposal. The UCSS business was previously reported as part of the Galvanizing business segment with the results up to the date of sale reported within continuing operations.

Donations

During the year the Group donated £38,000 (2004: £14,000) to charities of which £nil (2004: £nil) was in the United Kingdom. There were no political donations made during the year (2004: £nil).

Directors

The names and brief biographical details of the directors as at the date of this report are listed on page 20. Jean-Laurent Nabet served as a non-executive director from 11 May 2005 to 2 December 2005, Mark Robson served as Finance Director until 12 April 2005, and Edouard Stern served as non-executive chairman until his death on 1 March 2005.

Details of the Directors' interests in the shares of the Company can be found in the Directors' remuneration report.

Substantial shareholders

As at the date of this report, the Company was aware of the following interests in 3% or more of the Company's ordinary share capital:

Name	Shareholding	Percentage of issued capital
Mainz Trading Limited/Finance and Trading Limited (1)	39,574,659	25.9%
MFP Investors LLC (2)	11,882,000	7.8%
Steel Partners II LP	9,928,710	6.5%
Legal & General Investment Management Limited	4,969,181	3.3%
Barclays PLC	4,823,154	3.2%
Bear Stearns International Trading Limited	4,845,175	3.2%

(1) The Company has been notified by Kristen van Riel, President of the Executive Board of trustees of the Stern Family Foundation, that the Stern Family Foundation beneficially owns 39,574,659 shares of the Company's issued ordinary share capital. Such shareholding is held by Mainz Trading Limited (36,613,425 shares) and Finance and Trading Limited (2,961,234 shares).

(2) Pursuant to S. 198 of the Companies Act 1985, the Company has been notified that the Goldman Sachs Group, Inc. is interested in 12,678,759 shares (8.3%), which includes the 11,882,000 shares beneficially owned by MFP Investors LLC.

Research and development

The Group spent £0.3 million during 2005 (2004: £0.6 million) on research and development primarily associated with product development and the improvement of production processes. The criteria in IAS 38 for capitalising such expenditure were not met and consequently all such expenditure was expensed as incurred.

Directors' report

Financial risk management and treasury policies

Details of the Group's financial risk management and treasury policies are contained in page 19 and note 29.

Payment of creditors

The Group's policy in respect of the majority of its trade creditors is to negotiate terms and conditions and, provided these are met, payments are made accordingly. Where payment terms are not specifically agreed, trade creditors are paid in accordance with local commercial practice.

Trade creditor days for the Company for the year ended 31 December 2005 were 31 days (2004: 29 days), based upon the average daily amount invoiced by suppliers during the year.

Insurance of directors

The Company maintains insurance for its directors and officers against liabilities as permitted by the Companies Act 1985.

Power to purchase own shares

The directors believe that it remains advantageous for the Company to be able to purchase its own ordinary shares in the market. Accordingly, resolution 9, which will be proposed as a special resolution at the Annual General Meeting, seeks to renew the existing general authority to make market purchases. The details of the maximum number of ordinary shares and the minimum and maximum price at which such shares would be purchased are set out in the resolution. The Company did not purchase any of its own shares during the year and the directors have no present intention of utilising this authority.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as auditors to the Company will be proposed at the Annual General Meeting.

On behalf of the Board

J P Narciso
Secretary
26 March 2006

Corporate governance report

Compliance Statement

The Board is committed to high standards of corporate governance. The Board recognises that it is accountable to the shareholders for the Group's corporate governance. This statement, together with the directors' remuneration report, seeks to demonstrate how the principles of good governance, advocated by the revised Combined Code, issued by the Financial Reporting Council in July 2003 ('revised Combined Code'), have been and continue to be applied.

The Company has been in compliance with section one of the revised Combined Code for the duration of the year, with the exception that the Chairman was a member of the Audit and Remuneration Committees. The constitution of the Board and the number of independent non-executive directors will be kept under review over the next year.

The Board, its directors and operations

As of the date of this report, the Board comprises four non-executive directors and one executive director, whose names and brief biographies appear on page 20. Disclosure of other directors who served during the year are contained in the Directors' report. Kristen van Riel, Jean-Laurent Nabet and Edouard Stern were not considered independent by virtue of their relationship to or interest in the Stern shareholding.

The roles and responsibilities of the Chairman and Chief Executive were clearly separated. During the year, Steven Marshall accepted non-executive directorships of other companies, however the amount of time he was able to contribute to the performance of his duties as Chairman was not reduced.

The Board is the principal decision-making forum of the Group and exercises overall control of the Group's affairs by addressing matters reserved for its decision. These include responsibility for the Group's strategy, the approval of financial and other public statements, acquisitions and disposals, treasury and risk management policies and the appointment and removal of executive management and the Company Secretary. Various operational matters of a specified size or importance are referred to the Board for approval in accordance with an established delegation of authority.

Comprehensive briefing papers are distributed to board members by the Company Secretary, sufficiently in advance of each board meeting to enable detailed review. Such papers address strategic matters, items reserved for board review and approval, forecast, budget and actual financial results, changes to risks and controls, and various other matters which should reasonably be considered by the Board. This practice ensures that the Board is supplied with information on the Group's businesses in a timely manner, and that the directors are properly briefed to discuss such items at board meetings. A statement of the directors' responsibilities in respect of the Annual Report and Accounts is set out on page 46.

The Group's procedures allow directors to seek both independent professional advice, at the Group's expense, and the advice and services of the Company Secretary in order to

Corporate governance report

The Board, its directors and operations (continued)

fulfil their duties. The Group maintains appropriate insurance cover in respect of directors' and officers' liabilities.

During the year the Chairman met on several occasions with the other non-executive directors without the presence of the executive directors. The independent non-executive directors also met during the year without the presence of the Chairman.

The non-executive directors play a leading role in corporate accountability and governance through their membership of the various committees of the Board. The membership and remit of each committee, together with a record of directors' attendance, is described below. Where considered appropriate, training is made available to directors and training needs are assessed as part of the board evaluation procedure referred to below.

All non-executive directors are appointed for an initial three year period following which the appointment is renewable at the option of the Board for two further terms of three years. The maximum period of appointment is nine years. However, directors must stand for election by shareholders at the first Annual General Meeting following their initial appointment. Terms and conditions of appointment for non-executive directors are available for inspection upon request during normal business hours and at the Annual General Meeting and are referred to in the Directors' remuneration report.

Each year the number nearest to but not exceeding one-third of the directors (excluding those directors retiring and not seeking re-election and those retiring and seeking election following their appointment during the year) shall retire by rotation. Whilst the Company's Articles of Association do not expressly provide that each director will offer himself for re-election at no more than three year intervals, the directors, being cognisant of developing best practice, undertake to ensure that each director will offer himself for re-election at no more than three year intervals.

Board committees

Nominations Committee

The Nominations Committee presently comprises: Steven Marshall (Chairman), Charles Fisher and Andrew Walker. The Committee met twice during the year. The Committee reviews the structure, size and composition of the Board and recommends changes thereto to the Board for its consideration.

During the year the Committee engaged independent recruitment consultants to assist with changes to Board composition. Suitable candidates suggested by such consultants were then interviewed by Committee members and met with the Chief Executive, following which a decision regarding offer of appointment was made.

Audit Committee

The Audit Committee presently comprises: Andrew Walker (Chairman), Charles Fisher and Steven Marshall. The Committee met three times during the year. The Board has determined that

Audit Committee (continued)

Steven Marshall has recent and relevant financial experience for the purpose of the Combined Code.

The Chief Executive and other senior executives, whilst not members of the Committee, are invited to attend meetings of the Committee when required. The Audit Committee is responsible for reviewing half year and annual accounts before their submission to the Board, reviewing the Group's systems of internal control and the effectiveness thereof, reviewing and discussing reports of internal and external audit, and advising the Board on the appointment, re-appointment and removal of external auditors and their remuneration both for audit and non-audit work. In addition, the Audit Committee reviewed the appointment, remuneration and utilisation of the Group's internal audit service which during the year was performed partly by in-house specialist resource and partly outsourced to PricewaterhouseCoopers LLP.

Procedures exist, both within the Group and Deloitte & Touche LLP, the Company's auditors, to promptly identify any potential non-audit services for pre-approval. During the year, Deloitte & Touche LLP performed the following non-audit services: (i) services relating to the implementation of International Financial Reporting Standards, and (ii) services relating to the disposal of the Group's South African Industrial Supplies businesses. The fees for each of these services are disclosed in the notes to the financial statements. In each case the independence and objectivity of Deloitte & Touche LLP was considered, taking into account their own confirmation that their independence and objectivity had not been impaired as a result of undertaking such services.

The Committee reviews annually Deloitte & Touche LLP's written confirmation of independence and objectivity, relating to external audit services, within the context of applicable regulatory requirements and professional standards.

The persons responsible for internal and external audit services to the Group have a direct line of communication to the Chairman of the Audit Committee.

Remuneration Committee

The Remuneration Committee presently comprises: Charles Fisher (Chairman), Steven Marshall and Andrew Walker. The Committee met eight times during the year.

Further details on this committee, are contained in the Directors' remuneration report on page 34.

The terms of reference of the Nomination, Audit and Remuneration Committees are published on the Company's website.

Corporate governance report

Meetings of the Board and Board committees

Details of directors' attendances at board and committee meetings are shown in the table below:

	Main board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in the year	11	3	8	2
Number of meetings attended:				
S Marshall	11	3	8	2
T G Atkinson	11	-	-	-
C M Fisher	11	3	8	2
A Walker	7	2	6	2
J L Nabet	6	-	-	-
M P W Robson	3	-	-	-
E Stern	1	-	-	-

Andrew Walker was appointed a non-executive director on 11 May 2005 and has attended all board and committee meetings of which he was a member since his appointment. Jean-Laurent Nabet, Mark Robson and Edouard Stern each attended all board and committee meetings of which they were members until their date of departure from the Board.

Board performance evaluation

During the year the Board initiated an evaluation of the performance of the Board as well as the three committees of the Board. The Board also reviewed the performance of the non-executive directors, including the Chairman, to ensure that their performance continued to be effective.

The evaluation was conducted by way of written questionnaires and private discussions between the Chairman and the directors. The process confirmed that all the directors continued to contribute positively to the Board. The evaluation process also resulted in the strengthening of the administrative support to the Board.

Relations with shareholders

Communication with shareholders is given high priority and a number of methods are used to promote greater understanding and dialogue with investment audiences.

The Chief Executive together on occasion with members of senior management meet with shareholders on a regular basis. Significant points from such meetings are communicated to the Board on a monthly basis. During the year the Senior Independent Director contacted major

Relations with shareholders (continued)

shareholders to discuss their views on various group matters. Shareholders will continue to be afforded an opportunity to meet or converse with the Senior Independent Director to address any items regarding the Group.

During the year shareholders were kept informed of the progress of the Group through trading statements and other announcements of significant developments that were released through the London Stock Exchange and which are available on the Company's website.

Additionally, individual shareholders were afforded the opportunity to question the Chairman and the chairmen of the board committees at the Annual General Meeting. The Annual Report and Accounts and Notice of the Annual General Meeting are sent to shareholders at least 20 working days prior to the meeting. The Group indicates the level of proxy votes lodged in respect of each resolution proposed at the Annual General Meeting, together with the number of votes for and against each resolution, following each vote on a show of hands. Details of abstentions are also disclosed.

Internal control and risk management

The Board is responsible for the operation and effectiveness of the consolidated Group's (excluding associates and joint ventures) systems of internal control and risk management and undertakes to direct the identification, evaluation and management of significant risks faced by the Group. This process is regularly reviewed and is in accordance with Turnbull Guidance.

Internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature the Group's internal control systems provide reasonable but not absolute assurance against misstatement or loss.

The effectiveness of the Group's systems of internal control has been reviewed by the Board during 2005. The key procedures which the directors have established to provide effective internal control are as follows:

(i) Regular review of risks and compensating controls

The Group's schedule of risks and compensating controls is formally considered by the Board twice a year. All areas of the business are required to undertake risk-profiling exercises to formally review their principal areas of risk, which forms the basis for the schedule reviewed by the Board.

Risks and controls are discussed during business unit half-year and profit plan reviews, which are attended by the Chief Executive and members of senior divisional and Group management. Changes to such risks and controls are identified in each division's monthly report, copies of which are circulated with the board papers. Any changes of significance are reported to the Board. Schedules of pending litigation and potential liabilities pertaining to disposed businesses are similarly circulated.

Corporate governance report

Internal control and risk management (continued)

(ii) Delegation of authority

The Group's delegation of authority details authority, referral and reporting requirements with respect to certain transactions, events or occurrences. The delegation of authority forms part of the Corporate Policy Manual.

(iii) Detailed budgeting and subsequent review

Each business unit is required to prepare, on an annual basis, a detailed plan covering the next three years, addressing both financial and non-financial objectives. Such plans are reviewed at divisional and group levels, and ultimately approved by the Board, as part of the Group's profit plan.

Actual performance against budget and detailed forecasts is reported on a monthly basis. Written monthly reports accompany monthly financial schedules and contain variance analyses (in the case of financial data) and commentary (in the case of non-financial data).

(iv) Annual statements of compliance

The Group has an established framework of policies and procedures laid down by the Board to which personnel are expected to comply and attest such compliance on an annual basis. These policies cover key issues including authorisation levels, segregation of duties, ethical and legislative compliance as well as health, safety and environmental issues.

(v) Internal audit

The Group has an internal audit function which during the year was partly performed by specialist in-house resource and partly outsourced to PricewaterhouseCoopers LLP. Business units are selected for internal audit using a risk-based approach, with one or more locations of each business unit audited on at least a three year rotational basis. The scope and results of internal audit's work are reviewed by the Audit Committee, and the resolution of points raised is overseen by group senior management and reported to the Audit Committee to ensure resolution in a timely and satisfactory manner. Internal audit reports and reports monitoring the resolution of points raised are shared with the external auditors. The Group's internal audit resources all have a direct line of communication to the Chairman of the Audit Committee.

The internal audit function has been reviewed by the Audit Committee which has concluded the function effective in achieving its objectives.

(vi) Whistle-blowing procedures

The Group has implemented whistle-blowing procedures whereby employees are provided a means of communication independent of executive management to express any concern relating to perceived malpractice, improper business practices, management impropriety or other similar matters.

Corporate social responsibility

Objectives and Practice

The Board's objective is to build a sustainable and profitable business while behaving as a good corporate citizen in all activities. The Board regards corporate social responsibility as a sustainable approach to business that seeks to benefit all stakeholders, be they customers, employees, communities, the environment or the Company and its shareholders.

The Group is committed to conducting its business activities in an equitable, ethical and proper manner, in compliance with applicable laws and regulations. The Board takes account of the significance of social, environmental and ethical matters relevant to the Group, by various risk reporting processes in place. The Group's policies with regard to social, environmental and ethical matters are embodied in the Corporate Policy Manual (CPM), to which each business unit and divisional managing director and finance director attests compliance on an annual basis. The review of such practices and procedures and related risks and opportunities is an ongoing process upon which the Board places significant importance.

Risk Assessment

The Group undertakes a risk assessment process, which is consistent with Turnbull Guidance. A matrix of critical risks throughout the Group is maintained. This covers all areas of risk including: financial, business competitors, social, environmental and ethical matters. The matrix includes an assessment of the severity of the risk, likelihood of occurrence, existing countermeasures and suggestions of other mitigating measures.

The matrix is reviewed and discussed by local management and at board level and updated twice a year.

Management Control

In addition to the policies and management practice described herein, during the year, the Chief Executive and members of the Group's senior management team visited a number of the business units as part of the half-year business unit review process, and then later in the year as part of the profit planning process. The Board of directors also visited some of the sites.

Corporate social responsibility

Social

Health and Safety

The health and safety of our employees and those who enter our facilities is of primary importance. The Group has various health and safety frameworks in place, that are intended to comply as a minimum, with applicable local laws and regulations.

The Group's CPM provides:

...It is the Group policy to:-

(i) Safeguard the health, safety and welfare of all employees whilst at work and to provide, so far as is reasonably practicable, a working environment which is safe and is consistent with best practice in the countries in which the Group operates, with minimum risk to the health of employees and others, including visitors and the general public.

(ii) Ensure that appropriate legislative and regulatory requirements for Health and Safety at Work are met at all workplaces within the Group.

(b) The successful implementation of this Health and Safety Policy requires the full co-operation of all employees and their acceptance of responsibility for the care of themselves and others...

Plants keep records of health and safety related incidences and most have regular "Toolbox" meetings at which shop floor staff discuss issues arising relating to health and safety matters. Staff are also encouraged to report near misses, some through plant specific incentive schemes. Injuries or near misses trigger a process of site-specific review and discussion of potential remediation procedures. This is reported as an integral part of the Group's monthly reporting process.

Health and safety performance is reviewed as part of the half yearly review and profit planning process. Information on health and safety which includes matters such as, Lost Time Injury Frequency Rates (LTIFR), Medically Treated Injury Frequency Rates (MTIFR), near misses and number of "Toolbox" meetings held, are reviewed. Analysis of this information is also performed in order to highlight any trends.

Independent health and safety audits of some of the Group's businesses were performed during the year, with items noted for improvement being remedied currently. A review and summary of the independent health and safety audits around the Group, is provided to the Board once a year. This includes any risk areas highlighted in these audits and information relating to those sites not audited during the year.

Corporate social responsibility

Social (continued)

Employment

Subject to any conflict with local legislation or governmental regulation, it is the Group's policy to treat people equally and fairly and the Group opposes all forms of unlawful discrimination on the grounds of sex, marriage, pregnancy, colour, race, nationality, ethnic or national origin, religion or belief, sexual orientation, disability or age.

The Group's CPM provides:

...Decisions on recruitment, training, promotion and remuneration, must be on the basis of ability, the necessary requirements for the job and other objectively relevant criteria.

In their day to day work, as far as is practicable, employees in comparable positions and with comparable ability must be given equal opportunity to demonstrate their ability and improve their positions...

The personal and professional development of employees is supported by training programs, both in-house and externally. The Group participates in a number of apprenticeship/workplace training programs, and in some jurisdictions training levies apply to promote and financially support such initiatives. Management development planning and objective-based performance appraisals seek to further develop employees.

Employee Involvement, Communication and Consultation Policy

The Group emphasises the need for two-way communication with managers and employees recognising that a better informed, more knowledgeable workforce is more productive and committed to achieving the Group's business goals. Employee involvement in, and an awareness of, the financial and economic performance of the Group is promoted. This is set out in the Group's CPM as follows:

...The Group communication strategy recognises the importance of two-way communication and supports the participation of employees in consultative committees, briefing groups, suggestion schemes or other suitable means. It is Group policy to ensure that Delta meets the appropriate legislation, Governmental regulations and best practice for the industry in each of the countries in which Delta operate.

The detailed arrangements for employee involvement, communication and consultation are the responsibility of Divisional Management. Briefing arrangements need to ensure all employees in a particular grouping are informed of key company news and developments wherever possible in the applicable local language...

Corporate social responsibility

Environmental

The Group's CPM provides:

...The Group is committed to best environmental practice and has clear management responsibilities to ensure full compliance. The Group's overall policy forms the basis of further detailed policies that are appropriate to the individual operating businesses.

Management seeks to minimise the impact on the environment of all aspects of the Group's operations by means of environmentally sound practices which take practical steps to control effectively or eliminate any known pollution risks, without entailing excessive cost...

The nature of some of our manufacturing processes potentially exposes the environment to risks that require careful and appropriate management. The Group proactively pursues compliance and targets best practice in all areas of environmental compliance. Environmental policies and practices are tailored to local regulatory requirements, with best practice developments shared between our facilities where appropriate. Employees are briefed by management in matters of policy and procedure relating to potential environmental risk that may concern their particular area of operation. Internal reporting and review procedures that apply to health and safety, also apply to environmental matters to ensure that actual or potential issues are reported promptly for action. Environmental incidents are reported to the Board through the divisional monthly reports.

Ethical

Business Behaviour and Ethics

The Group's policy is to comply with all laws and regulations applicable to its businesses. The Group expects the highest levels of integrity from all directors, managers and employees. In their business relationships, the Group requires them to have well founded respect for scrupulous and honest dealing, covering both external and internal relationships. Any form of dishonesty, unscrupulous business dealings or compromise of ethical standards could reflect adversely on the Group and may result in disciplinary action.

Directors' remuneration report

The following sections of the Remuneration Report are unaudited.

This report has been prepared in accordance with the Companies Act 1985 (as amended) and the relevant requirements of the UK Listing Authority Listing Rules. A resolution to approve this report will be proposed at the Annual General Meeting of the Company.

Remuneration Committee (the "Committee")

Role and composition of the Committee

The role of the Committee includes making recommendations to the Board on policy for the remuneration of the Company's chairman, executive directors, and members of senior management.

The Committee presently comprises: Charles Fisher (chairman), Steven Marshall and Andrew Walker. The Chairman of the Board is excluded from discussion relating to his own compensation.

The Chief Executive attends Committee meetings by invitation when required, and is excluded from matters regarding his own remuneration. The Committee seeks the recommendations of the Chief Executive concerning the remuneration of senior management.

Advisers to the Committee

In order to remain informed of the latest developments and market trends in remuneration best practice, the Committee considers advice from New Bridge Street Consultants (NBSC), an independent firm of remuneration consultants. NBSC provides no other services to the Group other than advice on remuneration policy and practice.

Remuneration Policy

General remuneration policy

The Committee, in setting remuneration policy for executive directors and senior management, recognises the need to be competitive in an international market. The Committee's policy is to set remuneration levels which ensure that executive directors are fairly and responsibly rewarded in return for high levels of performance. Remuneration policy is designed to support key business strategies and create a strong, performance-oriented environment. At the same time, the policy must attract, motivate and retain talent. Accordingly, the Chief Executive receives a competitive basic salary comparable with companies of a similar size and international scope and has the opportunity to earn enhanced total remuneration for performance measured against targets set by the Committee.

The Committee appreciates that its policy must be reviewed over time in response to internal and external factors.

Directors' remuneration report

Components of Executive Director Remuneration

Basic salary

Basic salaries are reviewed annually by the Committee and are the only pensionable element of remuneration.

Short-term incentive - performance related bonus

The Chief Executive's maximum potential performance related bonus during 2005 was 100% of his basic salary. The bonus payable was determined by the Committee with reference to the Chief Executive's agreed strategic objectives, the resolution of legacy matters and the Group's financial performance. The Chief Executive's 2005 bonus will be paid in cash and will not be pensionable.

Following a full review of the Company's remuneration policy for executive directors and senior management, the Committee concluded that the Group's remuneration arrangements should be amended. In particular, the Committee considered that the Company's executive directors and senior management face particular challenges in a period of continuing change, as the Group's portfolio is progressively re-shaped and as the Group's legacy matters are actively managed. Consequently the Committee concluded that the Group's remuneration arrangements should place more emphasis on performance related bonuses whilst partially deferring those bonuses in shares, rather than on long-term incentives.

Accordingly, the Group's 2006 bonus arrangements for executive directors and senior management provide for increased bonus eligibility with one half of any bonus payable being deferred in ordinary shares in the Company. The remaining one half of any bonus payable will be paid in cash.

The Chief Executive's maximum potential bonus for the 2006 financial year and subsequent years has increased from a past maximum of 100% of basic salary to 150% of basic salary. Similarly, the maximum potential bonus for the other members of the senior management has increased from 40% or 60% of basic salary to 45% and 90% respectively. With the deferral of one half of bonuses payable in shares, the maximum potential bonus payable in cash has been reduced.

The deferred bonus share award will be forfeited on cessation of employment prior to the third anniversary of award except in the case of "good leavers" in which case the deferred shares will be released early. The deferred shares would also be released early on a change of control in the Company.

For 2006, the Chief Executive's bonus will be based 50% on financial performance, with the balance based on achievement of strategic objectives (40%) and management of legacy matters (10%). The bonuses of other members of the senior management will be determined with reference to the Group's financial performance and personal objectives.

Directors' remuneration report

Components of Executive Director Remuneration (continued)

Long-term incentives - share based awards

Over recent years the Company has focused its long term equity incentive strategy on its Executive Share Option Scheme (ESOS), approved by the shareholders at the Annual General Meeting held in May 1999. Only executive directors and certain eligible senior executives have participated in the ESOS.

Grants under the ESOS have to date been made annually and had values of up to one times annual salary.

ESOS options granted on or before 29 June 2001 are subject to the following performance conditions: (i) on or before the tenth anniversary of the grant date, earnings per share growth over a period of at least three consecutive years must equal or exceed the growth in the Retail Prices Index plus 3% per annum; and (ii) earnings per share before exceptional items must equal or exceed 20 pence.

ESOS options granted after 29 June 2001 are subject to the following performance condition: on or before the sixth anniversary of the grant date, earnings per share growth over a period of at least three consecutive years must equal or exceed the growth in the Retail Price Index plus 3% per annum.

All options are granted for nil consideration. The exercise price for options is the five day average price preceding the date of grant. All performance conditions are measured against earnings per share before exceptional items for the financial year preceding option grant.

Subject to the fulfilment of the foregoing performance conditions, options are exercisable between the third and tenth anniversary of the grant date.

The Committee considers the performance targets appropriate to date since they require substantial improvement in the underlying financial performance of the Company and compliments the requirement for share price growth in order for options to deliver value to participants. The performance condition for the ESOS options granted on 29 June 2001 and 3 May 2002 have been satisfied.

Proposed "Performance Share Plan"

Following its review of the Company's remuneration policy for executive directors and senior management the Committee also concluded to seek shareholder approval for a new long-term equity incentive arrangement, the Delta Performance Share Plan 2006 (the "Plan"), to replace the ESOS.

Full details of the proposed Plan are set out in the Appendix to the Notice of the 2006 Annual General Meeting accompanying these accounts.

Under the terms of the Plan, selected individuals may be granted a conditional award of ordinary shares in the Company, ordinarily vesting on the third anniversary of grant subject to continued employment within the Company's group and the satisfaction of performance conditions.

Directors' remuneration report

Long-term incentives - share based awards (continued)

Proposed "Performance Share Plan" (continued)

For the initial awards to be made in 2006, vesting of awards will be based on the Company's relative Total Shareholder Return (TSR) compared to that of the constituents of the FTSE Small Cap Index (excluding investment trusts) over a fixed three-year period. Twenty five per cent of the shares under award will vest if the Company's TSR is ranked median and 100% will vest at the upper quartile, with pro rata vesting for performance between median and upper quartile.

In addition, irrespective of the TSR test, awards will only vest if the Committee considers that the Company's underlying financial performance has been satisfactory over the performance period.

The Committee concluded that a combination of the relative measure TSR and the financial underpin suitably aligns participants interests with investors.

Awards under the Plan will be limited to shares having a market value at the date of grant of no more than 50% of the grantee's salary, except in exceptional circumstances, such as recruitment or retention, where a grant may be as much as 100% of the grantee's salary

The current intention is that the initial annual awards will not exceed 40% of salary.

Assuming approval is secured for the Plan, no further grants will be made under the ESOS.

Chief Executive's Share Award Agreement

As disclosed in the Interim Results Statement dated 28 September 2005, in order to redress the lack of a sufficient retention incentive and following consultation with the Group's substantial shareholders, the Committee resolved in September 2005 to make a one-off deferred share retention award ("Retention Award") to the Chief Executive, over shares with a value approximating to his basic salary at that time.

The Retention Award was delayed for several months because of share dealing restrictions, but it was finally made on 4 January 2006, over 246,961 ordinary shares in the Company (with value £290,000 as at the time of grant). To the extent the Retention Award vests, it will be satisfied through market purchased shares (no new shares will be issued in connection with the retention award).

The Retention Award will ordinarily vest three years from when it was intended, on 29 September 2008, subject to continued employment.

To the extent the Retention Award vests, the Chief Executive will also receive a payment in cash and or shares (to be determined by the Committee) equal in value to the dividends (plus associated tax credit) that would have been paid on such shares over the deferral period.

The Retention Award will normally lapse if the Chief Executive leaves employment prior to vesting. However, in the event of cessation of employment by reason of injury, disability, death

Directors' remuneration report

Long-term incentives - share based awards (continued)

Chief Executive's Share Award Agreement (continued)

or for other reason at the discretion of the Committee, the retention award can vest to the extent the Committee permits.

The Retention Award would also vest early in the event of a change of control of the Company (other than simply in connection with an internal reorganisation).

No alteration will be made to material terms of the Retention Award to the Chief Executive's advantage without prior shareholder approval.

The Retention Award is not transferable (other than on death) nor pensionable.

In light of the pressing urgency for retention, the award was made without prior shareholder consent in reliance upon paragraph 9.4.2(2) of the Listing Rules.

Share ownership guidelines

The Committee has adopted, subject to shareholder approval of the Plan, guidelines for directors, whereby the Committee expects them to retain 50% of shares acquired under the Company's share incentive plans (after tax and any financing costs), until a holding of 100% of salary is achieved.

Pensions

Executive directors are invited to participate in the Delta Pension Plan. The plan is a funded, HM Revenue & Customs approved, final salary occupational pension scheme, and provides a pension of up to two thirds of final pensionable salary, subject to completion of 20 years' pensionable service and retirement at normal retirement age. Final pensionable salary is calculated with reference to basic salary and not other elements of remuneration and is limited by HM Revenue & Customs limits including HM Revenue & Customs earnings cap.

The Delta Pension Plan also provides lump sum life assurance cover of up to four times pensionable salary and makes provision for spouses' and dependants' pensions and early retirement provisions, including ill-health. All plan benefits are subject to HM Revenue & Customs limits.

In the specific instances described in this report, funded unapproved retirement benefit schemes (FURBS) have been established to provide pension and death benefits attributable to executive directors' basic salary in excess of the HM Revenue & Customs earnings cap. FURBS are defined contribution schemes that are intended to provide benefits broadly comparable with those that would have applied under the Delta Pension Plan absent the HM Revenue & Customs earnings cap.

The fees earned by executive directors in their roles as non-executive directors of DEI are payable to the Company.

Directors' remuneration report

Remuneration Components - Non-Executive Directors

Remuneration for non-executive directors consists of an annual fee for their services on the Board and board committees and where appropriate for devoting additional time and expertise for the benefit of the Group. Non-executive directors do not participate in any of the Group's bonus or share option schemes nor are they eligible for membership of any of the Group's pension plans.

The fees for non-executive directors' duties are determined by the Chairman and the executive directors, and the fees for the Chairman are determined by the full board with regard, where appropriate, to market comparisons, within the restrictions contained in the Articles of Association. Each non-executive director takes no part in determining his own fees.

Annual fees payable to the Chairman of the Board are £100,000 and to other non-executive directors are £30.000.

Directors' service contracts

Todd Atkinson's service contract with the Company commenced on 2 July 2003. Either party may terminate the contract by giving not less than 12 months' written notice, and Mr. Atkinson's service contract provides for no additional termination payments beyond statutory payments that may be applicable.

The non-executive directors have no formal service contracts, but have letters of engagement that do not provide for notice periods or for compensation payable upon termination.

The Committee strives to achieve an appropriate balance between ensuring continuity amongst senior management, limiting notice periods to no more than twelve months, and minimising termination payments.

The following sections of the Remuneration Report are audited.

Directors' remuneration report

Directors' remuneration

Aggregate directors' remuneration, excluding pension entitlements under defined benefit pension schemes

	2005 £	2004 £
Basic salary	**528,962**	731,096
Other emoluments	**13,920**	32,085
Bonus	**229,830**	247,000
Compensation in respect of loss of office	**2,500**	-
	775,212	1,010,181
Company pension contributions to money purchase plans (FURBS)	**94,655**	154,746
Share options	**113,578**	-
	983,445	1,164,927

The following are the emoluments afforded to individual directors. Details of dates of appointment, resignation and change in role are included in the directors' report.

Directors' remuneration

					2005	2004
£	**Basic salary**	**Other emoluments [1]**	**Bonus**	**Compensation for loss of office [2]**	**Total**	**Total**
Executive						
T G Atkinson	290,000	13,760	229,830	-	533,590	518,574
M P W Robson	78,000	160	-	2,500	80,660	302,511
Non executive						
S Marshall	80,000	-	-	-	80,000	22,500
C M Fisher	30,000	-	-	-	30,000	31,250
A Walker	19,231	-	-	-	19,231	-
J L Nabet	16,731	-	-	-	16,731	-
E Stern	15,000	-	-	-	15,000	92,500
A P Pedder	-	-	-	-	-	31,250
Sir Philip Beck	-	-	-	-	-	11,596
Total	**528,962**	**13,920**	**229,830**	**2,500**	**775,212**	1,010,181

(1) Other emoluments include benefits in kind and car allowances.

(2) Compensation for loss of office in respect of Mark Robson related to a statutory redundancy payment.

Directors' remuneration report

Pension entitlements under defined benefit pension schemes

Retirement benefits on a defined benefit basis are accruing to one director as at 31 December 2005 (2004: two directors). The accrued pension entitlement shown in the table immediately below is the amount that would be paid in each year on retirement at normal retirement age, based on pensionable service to the end of the financial year. The normal retirement age for executive directors is 60. The Plan also provides spouse's pension, which is 50% of the deceased director's prospective pension or, in the case of death in service, one third of final pensionable salary if greater. Following retirement, pensions increase at an annual rate in line with RPI up to 5%. The Company has the discretionary power to grant early retirement pensions but a member does not have an absolute right to an early retirement pension. No discretionary benefits are allowed for in the transfer values.

The following executive directors had accrued entitlements under the Delta Pension Plan as follows:

	Accrued pension 2 January 2005 £ (1)	**Increase in accrued pension in the year £ (2)**	**Accrued pension 31 December 2005 £ (1)**
T G Atkinson	14,733	4,039	18,772
M P W Robson	14,336	1,472	15,808

(1) The pension entitlement is that which would be paid annually on retirement based on service to the end of the year or date of leaving, whichever is earlier.

(2) The increase in the accrued pension during the year has been adjusted to remove any distortion due to inflation over the year.

The following table sets out the transfer value of directors' accrued benefits under the Delta Pension Plan calculated in a manner consistent with 'Retirement Benefit Schemes - Transfer Values (GN 11)' published by the Institute of Actuaries and the Faculty of Actuaries.

	Transfer value 2 January 2005 £	**Contributions made by the director £**	***Increase in* transfer value, net of contributions £**	**Transfer value 31 December 2005 £**
T G Atkinson	137,528	5,235	51,489	194,252
M P W Robson	127,342	1,020	27,150	155,512

Directors' remuneration report

Pension entitlements under defined benefit pension schemes (continued)

The following additional information is given to comply with the requirements of the UK Listing Authority Listing Rules which differ in some respects from the equivalent statutory requirements:

	Increase in accrued pension in the year in excess of inflation £	Transfer value of increase in year less directors' contributions £
T G Atkinson	3,641	32,515
M P W Robson	1,085	9,637

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the Delta Pension Plan.

In addition to pension entitlements under defined benefit pension schemes, FURBS were established for Messrs. Atkinson and Robson to provide pension and death benefits attributable to the executive director's base salary in excess of the HM Revenue & Customs earnings cap. FURBS are defined contribution schemes and contributions are based upon an agreed percentage rate of the executive director's basic salary. During the year the Company contributed £74,480 (2004: £76,961) on behalf of Todd Atkinson to the FURBS established for his benefit. Also during the year the Company contributed on behalf of Mark Robson £20,175 (2004: £77,785) to the FURBS established for his benefit, with contributions ceasing on Mark Robson's departure from the Group in April 2005.

Directors' share options over ordinary shares in the Company

Details of the number of shares subject to option held by executive directors are shown in the tables below. Details of performance criteria attaching to share options and awards are disclosed within 'Components of Executive Director Remuneration'.

Option Scheme	As at 2 January 2005	Granted during year	Exercised during year	Lapsed during year	As at 31 December 2005	Subscription price payable (per share)	Date on which options become exercisable	Date on which options lapse
T G Atkinson:								
ESOS	42,000	-	-	-	42,000	154p	11/06/02	11/06/09
ESOS	80,000	-	-	-	80,000	150p	29/11/03	29/11/10
ESOS	93,000	-	-	-	93,000	129p	29/06/04	29/06/11
ESOS	104,800	-	-	-	104,800	118p	03/05/05	03/05/12
ESOS	119,300	-	-	-	119,300	110p	25/04/06	25/04/13
ESOS	132,800	-	-	-	132,800	115p	26/06/06	26/06/13
ESOS	349,398	-	-	-	349,398	83p	16/04/07	16/04/14
ESOS	-	241,667	-	-	241,667	120p	29/06/08	29/06/15
Total	921,298	241,667	-	-	1,162,965			

Directors' remuneration report

Directors' share options over ordinary shares in the Company (continued)

Option Scheme	As at 2 January 2005	Granted during year	Exercised during year	Lapsed during year	As at 31 December 2005	Subscription price payable (per share)	Date on which options become exercisable	Date on which options lapse
M P W Robson:								
SAYE	15,344	-	10,143	5,201	-	82p	20/04/05	20/10/05
SAYE	7,395	-	3,622	3,773	-	72p	20/04/05	20/10/05
ESOS	94,000	-	-	94,000	-	154p	11/06/02	20/10/05
ESOS	51,000	-	-	51,000	-	150p	29/11/03	20/10/05
ESOS	51,000	-	-	51,000	-	156p	25/01/04	20/10/05
ESOS	131,300	-	-	131,300	-	129p	29/06/04	20/10/05
ESOS	150,900	-	150,900	-	-	118p	20/04/05	20/10/05
ESOS	171,800	-	171,800	-	-	110p	20/04/05	20/10/05
ESOS	227,711	-	227,711	-	-	83p	20/04/05	20/10/05
Total	900,450	-	564,176	336,274	-			

Details of the share options exercised by executive directors are shown in the table below:

Option Scheme	Number exercised	Exercise price	Market price at date of exercise	Gain £
M P W Robson:				
SAYE	10,143	82p	130.00p	4,869
SAYE	3,622	72p	130.00p	2,101
ESOS	150,900	118p	126.88p	13,400
ESOS	171,800	110p	118.38p	14,397
ESOS	227,711	83p	117.61p	78,811
Total	564,176			113,578

The highest mid-market price of the Company's ordinary shares during the year was 139.0p and the lowest was 100.0p. The year end price was 109.3p.

Following Mark Robson's departure from the Group he was permitted, in accordance with the rules of the ESOS and Save As You Earn, six months from the date of departure to exercise all options remaining outstanding at that time. Options not exercised within that time lapsed. All options referred above as being exercised were exercised following Mark Robson's departure from the Group.

Directors' remuneration report

Director's share awards over ordinary shares in the Company

	Total number of shares at 2 January 2005	Total number of shares conditionally awarded during the year (1)	Total number of shares at 31 December 2005	Vesting date (2)
T G Atkinson	-	264,961	264,961	30/9/08

(1) The market price of the shares at the date of award was 109.45 pence per share. There are no performance conditions attached to the award. As the Company was considered to be in a close period at the time, the grant to Todd Atkinson on 4 January 2006, was made with effect from 29 September 2005.

(2) The award is conditional on continued employment until the vesting date.

Directors' interests in shares

The beneficial interests in the shares of the Company of the directors in office at 31 December 2005, including the beneficial interests of their families, are set out in the table below:

	Number of ordinary shares of 25p each owned	
Directors' shareholdings	**At 31 December 2005**	**At 2 January 2005**
T G Atkinson	30,000	30,000
C M Fisher	76,000	76,000
S Marshall	15,000	-
A Walker	-	-

Todd Atkinson is a potential beneficiary of the Bedell Trust and therefore deemed to be technically interested in the 374,110 ordinary shares held by the trust for the purposes of satisfying the vesting of share options under the Company's long-term incentive plans.

The following change in the above occurred between 1 January 2005 and the date of this report.

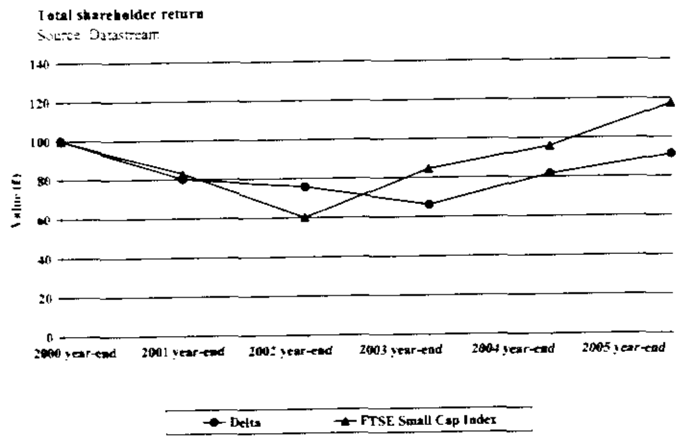
	Number of ordinary shares of 25p each owned	
Directors' shareholdings	**At 24 March 2006**	**At 2 January 2006**
K van Riel	39,574,659 (1)	-

(1) Kristen van Riel, President of the Executive Board of trustees of the Stern Family Foundation, has a non-beneficial interest in the shares owned by the Stern Family Foundation.

Other than the shareholdings and the options shown in the foregoing tables, none of the directors had or has any interest, or any holding without beneficial interest, in any class of any share capital of the Company or of any subsidiary. Other than the service contracts described above, at no time during the year has any director had any material interest in a contract with any Group company, being a contract of significance in relation to the Group's business.

Directors' remuneration report

The following information is unaudited.



This chart shows the value, at the end of the 2005 financial year, of £100 invested in Delta plc on 31 December 2000 compared with the value of £100 invested in the FTSE Small Cap Index. The other points plotted are the values at intervening financial year-ends. The FTSE Small Cap Index was selected for comparison as the Group forms part of that index.

On behalf of the Board

J P Narciso
Secretary
26 March 2006

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the Independent auditors' reports on pages 47 to 49 (for the Group) and 118 to 119 (for the company), is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRS) and for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense set out in the International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation differs in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent auditors' report to the members of Delta plc

We have audited the consolidated financial statements of Delta plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, and the related notes 1 to 41. These consolidated financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual company financial statements of Delta plc for the year ended 31 December 2005.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the consolidated financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the consolidated financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the consolidated financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is not consistent with the consolidated financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing

Independent auditors' report to the members of Delta plc

Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the part of the directors' remuneration report not described as having being audited and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the consolidated financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Emphasis of matter - uncertainty relating to the amount of a potential liability for alleged anti-competitive behaviour

Without qualifying our opinion, we draw attention to the disclosures made in note 37 to the consolidated financial statements concerning the European Commission competition directorate's investigation into alleged anti-competitive behaviour in the group's former plumbing fittings business. Legal counsel has advised that applicable regulations limit the maximum level of fines that could be imposed to 10% of the Group's total turnover in the business year preceding the

Independent auditors' report to the members of Delta plc

imposition of the fine. The ultimate outcome of the matter cannot be presently determined, and no provision for any liability that may result has been made in the consolidated financial statements. This matter has been adequately disclosed as a contingent liability.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
26 March 2006

Consolidated Income Statement

for the year ended 31 December 2005

		Year ended 31 December 2005			Year ended 1 January 2005		
£ million	Notes	Before exceptional items	Exceptional items (note 5)	Total	Before exceptional items	Except-ional items (note 5)	Total
Continuing operations:							
Revenue	4	**242.0**	**-**	**242.0**	200.6	-	200.6
Cost of sales		**(181.9)**	**-**	**(181.9)**	(149.7)	-	(149.7)
Gross profit		**60.1**	**-**	**60.1**	50.9	-	50.9
Distribution costs and administrative expenses		**(39.6)**	**-**	**(39.6)**	(36.1)	-	(36.1)
Profit on sale of fixed assets		**-**	**0.3**	**0.3**	-	0.3	0.3
Operating profit		**20.5**	**0.3**	**20.8**	14.8	0.3	15.1
Share of post-tax profits/(losses) of associates and joint ventures	**6**	**0.2**	**(8.5)**	**(8.3)**	(2.3)	-	(2.3)
Investment income	**7**	**7.4**	**-**	**7.4**	4.1	-	4.1
Other gains and losses	**8**	**31.9**	**-**	**31.9**	32.0	-	32.0
Finance costs	**9**	**(36.6)**	**(3.5)**	**(40.1)**	(36.0)	-	(36.0)
Profit/(loss) before tax		**23.4**	**(11.7)**	**11.7**	12.6	0.3	12.9
Tax	**10**	**(6.6)**	**(6.8)**	**(13.4)**	(2.9)	-	(2.9)
Profit/(loss) for the year from continuing operations		**16.8**	**(18.5)**	**(1.7)**	9.7	0.3	10.0
Discontinued operations:							
Profit for the year from discontinued operations	**11**	**10.5**	**85.7**	**96.2**	13.2	0.8	14.0
Profit for the year	**13**	**27.3**	**67.2**	**94.5**	22.9	1.1	24.0
Attributable to:							
Equity holders of the parent		**21.1**	**32.3**	**53.4**	16.2	1.1	17.3
Minority interest		**6.2**	**34.9**	**41.1**	6.7	-	6.7
		27.3	**67.2**	**94.5**	22.9	1.1	24.0
Earnings per share							
From continuing operations:							
Basic	**17**	**9.3**		**(2.0)**	5.0		5.2
Diluted	**17**	**9.3**		**(2.0)**	5.0		5.2
From continuing and discontinued operations:							
Basic	**17**	**13.9**		**35.2**	10.6		11.4
Diluted	**17**	**13.8**		**35.1**	10.6		11.4

Consolidated Balance Sheet

at 31 December 2005

£ million	Notes	31 December 2005	1 January 2005
Non-current assets			
Goodwill	18	**6.7**	15.5
Property, plant and equipment	19	**90.1**	105.4
Interests in associates and joint ventures	6	**1.6**	9.3
Deferred tax assets	21	**1.8**	3.2
Retirement benefit asset	22	**1.3**	0.7
Other receivables	24	**1.3**	0.7
		102.8	134.8
Current assets			
Inventories	23	**51.7**	67.8
Trade and other receivables	24	**39.4**	56.1
Other financial assets		**-**	4.2
Cash	25	**174.3**	57.9
		265.4	186.0
Assets classified as held for sale	26	**3.5**	-
Total assets		**371.7**	320.8
Current liabilities			
Trade and other payables	27	**(42.1)**	(57.9)
Current tax liabilities		**(8.5)**	(5.5)
Bank overdrafts	25	**(1.7)**	(15.9)
Bank loans	25	**(3.4)**	(2.9)
Provisions	28	**(2.2)**	(7.4)
Derivative financial instruments	29	**(2.7)**	-
		(60.6)	(89.6)
Liabilities directly associated with assets classified as held for sale	26	**(1.4)**	-
Net current assets		**204.8**	96.4
Non-current liabilities			
Bank loans	25	**-**	(0.7)
Retirement benefit obligation	22	**(3.5)**	(15.1)
Deferred tax liabilities	21	**(7.4)**	(3.7)
Provisions	28	**(9.2)**	(16.6)
		(20.1)	(36.1)
Total liabilities		**(82.1)**	(125.7)
Net assets		**289.6**	195.1

Consolidated Balance Sheet (continued)

at 31 December 2005

£ million	Notes	31 December 2005	1 January 2005
Equity			
Share capital	**30**	**41.0**	40.7
Share premium account	**30**	**33.2**	32.5
Hedging and translation reserves	**31**	**2.7**	(3.5)
Employee share ownership trust		**(1.0)**	(1.0)
Retained earnings	**32**	**142.2**	82.1
Equity attributable to equity holders of the parent		**218.1**	150.8
Minority interest		**71.5**	44.3
Total equity		**289.6**	195.1

The financial statements were approved by the Board of directors and authorised for issue on 26 March 2006. They were signed on its behalf by:

Todd Atkinson
Chief Executive

Steven Marshall
Chairman

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2005

£ million	Notes	Year ended 31 December 2005	Year ended 1 January 2005
Actuarial gains on defined benefit pension schemes	**22**	**12.6**	27.3
Losses on net investment hedges	**29**	**(2.5)**	-
Exchange differences on translation of foreign operations		**11.5**	(3.5)
Tax on items taken directly to equity	**21**	**(0.1)**	(0.1)
Net income recognised directly in equity		**21.5**	23.7
Profit for the year		**94.5**	24.0
Total recognised income and expense for the year		**116.0**	47.7
Attributable to:			
Equity holders of the parent		**72.4**	38.4
Minority interest		**43.6**	9.3
		116.0	47.7

Consolidated Cash Flow Statement

for the year ended 31 December 2005

£ million	Notes	**Year ended 31 December 2005**	Year ended 1 January 2005
Cash generated from operations before tax	**34**	**34.8**	37.8
Tax			
Tax paid		**(14.4)**	(9.6)
Net cash from operations		**20.4**	28.2
Investing activities			
Interest received		**7.7**	4.4
Interest paid		**(4.3)**	(3.4)
Disposal of businesses and subsidiaries	**12**	**119.7**	2.4
Disposal of associate		**-**	4.2
Proceeds on disposal of property, plant and equipment		**8.4**	4.6
Purchases of property, plant and equipment		**(8.0)**	(10.7)
Repayment of loans due from associates		**-**	1.2
Acquisition of businesses		**-**	(1.3)
Cash payments in respect of derivative financial instruments		**(3.3)**	-
Payments from provisions for disposed entities		**(1.5)**	(2.1)
Net cash generated by/(used in) investing activities		**118.7**	(0.7)
Financing activities			
Dividends paid to equity holders of the parent		**(5.3)**	(1.8)
Dividends paid to minority interests		**(14.7)**	(3.9)
Repayments of borrowings		**(0.9)**	(4.0)
Proceeds on issue of shares		**1.0**	-
New bank loans raised		**0.1**	0.2
Inflow from other financial assets		**4.2**	-
Net cash used in financing activities		**(15.6)**	(9.5)
Net increase in cash and cash equivalents		**123.5**	18.0
Cash and cash equivalents at the beginning of the year		**42.0**	24.4
Effect of foreign exchange rate changes on cash and cash equivalents		**7.1**	(0.4)
Cash and cash equivalents at the end of the year	**34**	**172.6**	42.0

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

1 General information

Delta plc (the Company) is a public limited company incorporated in the United Kingdom under the Companies Act 1985. The addresses of its registered office is disclosed on page 148. The principal activities of the Company and its subsidiaries (the Group) are described on pages 2 and 3 and listed in note 39.

The reporting currency of Delta plc is pound sterling. The functional currency of Delta's subsidiaries, associates and joint ventures have been determined in accordance with IAS 21 "The effects of changes in foreign exchange rates" to be the currency of the country in which each operation is incorporated, with the exception of Manganese Metal Company whose functional currency has been determined to be the United States dollar.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IAS 21	The Effects of Changes in Foreign Exchange Rates (as amended)
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures: and the related amendment to IAS 1 on capital disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The directors anticipate that the adoption of these Standards and Interpretations in future years will have no material impact on the financial statements of the Group except for potential additional disclosures on capital and financial instruments when the relevant standards come into effect for years commencing on or after 1 January 2007.

The directors believe that the Group is compliant with all International Financial Reporting Standards (IFRS) effective as at 31 December 2005 as well as IFRS adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS regulation.

2 Adoption of new and revised International Financial Reporting Standards

For the year ended 31 December 2005 onwards, Delta plc is required to prepare consolidated financial statements in accordance with International Accounting Standards (IAS) and IFRS adopted for use in the EU for the first time. References to IFRS throughout this document refer to the application of International Accounting Standards and International Financial Reporting Standards.

Delta plc previously prepared consolidated financial statements in accordance with UK GAAP up to and including the year ended 1 January 2005. During the preparation of the consolidated financial statements, a detailed review of the economic useful lives applicable to property, plant and equipment was performed. That review resulted in some significant changes to the useful economic lives of certain assets in the Group's South African operations.

2 Adoption of new and revised International Financial Reporting Standards (continued)

The Group believes these changes should have been identified in earlier years and accordingly has processed these changes as a prior year adjustment to its UK GAAP financial information. The adjustment also includes the reversal of a closure cost provision for which there is no legal or constructive obligation.

The consolidated financial statements for the year ended 31 December 2005 are the Group's first Annual Report and Accounts prepared under IFRS. This document includes an explanation of how the Group's reported performance and financial position are impacted by this change. As the Group's results have been prepared under IFRS, the accounting policies applied to the results are not the same as those presented in the 2004 consolidated financial statements.

The Group's revised accounting policies under IFRS are presented below. The comparative information contained within this document has been restated under these new accounting policies and a reconciliation to the UK GAAP results, net assets and equity as previously reported is provided in note 41.

The rules for first time adoption of IFRS are set out in IFRS 1 "First-time Adoption of International Financial Reporting Standards". IFRS 1 requires the use of the same accounting policies in the IFRS transition balance sheet at 4 January 2004 and for all years presented thereafter. The accounting policies must comply with all IFRS effective at the reporting date for the first financial reporting under IFRS.

IFRS 1 permits or requires companies adopting IFRS for the first time to adopt certain exemptions from the full retrospective requirements of IFRS in the transition year. The Group's transition date to IFRS is 4 January 2004. These financial statements have been prepared on the basis of adopting the following exemptions:.

(a) The Group has chosen not to restate business combinations prior to the transition date to IFRS.

(b) IFRS 2 "Share-Based Payments" has only been applied to equity instruments that were granted after 7 November 2002 and that had not vested before 1 January 2005.

(c) The Group has set the cumulative translation reserve to zero at the transition date.

(d) The Group has recognised all cumulative actuarial gains and losses relating to employee benefits at the date of transition.

(e) The Group has elected to apply the transitional provisions of IFRS 4 "Insurance Contracts", which restricts changes to accounting policies for insurance contracts, including changes made by a first-time adopter. The Group has also elected not to restate comparative information in respect of IFRS 4.

(f) The Group has elected to apply the transitional provisions of IFRS 5 "Non-current assets held for sale and discontinued operations", and has applied IFRS 5 prospectively from 2 January 2005.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

2 Adoption of new and revised International Financial Reporting Standards (continued)

(g) The Group has elected in respect of certain items of property, plant and equipment to use a previous GAAP revaluation at or before the date of transition as deemed cost at the date of revaluation.

(h) The Group has elected not to restate comparative information in respect of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" which have both been adopted from 2 January 2005. No adjustments were required in the opening position at 2 January 2005 to reflect the transition to IAS 32 and IAS 39.

3 Presentation of financial information and accounting policies

The consolidated financial statements have been prepared in accordance with IFRS for the first time and also with IFRS adopted in the European Union, and they therefore comply with Article 4 of the IAS Regulation. The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The principal accounting policies set out below have been consistently applied to all years presented in these financial statements, except for those relating to the classification and measurement of financial instruments, insurance contracts and non-current assets held for sale. They include a description of the accounting policies for financial instruments applied both before and after the adoption of IAS 32 and IAS 39 on 2 January 2005, as well as that for non-current assets held for sale under IFRS 5, before and after that date.

The disclosures required by IFRS 1 in respect of the transition from UK GAAP to IFRS are provided in note 41.

Basis of consolidation

The consolidated financial statements comprise the results, cash flows, assets and liabilities of Delta plc and all its subsidiaries, recognising any minority interest in those subsidiaries, together with the Group's share of the results and net assets of its associates and joint ventures. The financial statements of subsidiaries, associates and joint ventures are prepared as of the same reporting date using consistent accounting policies. Intercompany balances and transactions between subsidiaries, including any unrealised profits arising from intercompany transactions, are eliminated in full.

Subsidiaries are entities where the Group has the power to govern the financial and operating policies, generally accompanied by a share of more than 50% of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are included until the date on which the Group ceases to control them. Where a subsidiary is less than 100% owned by the Group, the minority interest share of the results and net assets are recognised at each reporting date. Where a company with minority interests has net liabilities, no asset is recorded within minority interests unless the minority shareholder has an obligation to make good its share of the net liabilities.

3 Presentation of financial information and accounting policies (continued)

Basis of consolidation (continued)

Associates are entities over which the Group has the power to exercise significant influence but not control or joint control, generally accompanied by a share of between 20% and 50% of the voting rights. Joint ventures are entities subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Investments in associates and joint ventures are accounted for using the equity method. If the Group's share of losses in an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations in relation to or made payments on behalf of the associate or joint venture.

Business combinations

All business combinations are accounted for by applying the purchase method. The cost of a business combination is measured as the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree, together with any costs directly attributable to the combination. The identifiable assets, liabilities and contingent liabilities of the acquiree are measured initially at fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" which are recognised at fair value less costs to sell. The excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Currency translation

The financial statements for each of the Group's subsidiaries, associates and joint ventures are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates.

The functional currency of all the Group's subsidiaries and joint ventures is the currency of the country in which that subsidiary or joint venture operates. Manganese Metal Company, the Group's 49% South African associate, uses the US dollar as its functional currency.

The presentation currency of the Group and functional currency of Delta plc is pound sterling.

Foreign currency transactions are translated into the functional currency of the entity using exchange rates prevailing at the dates of the transactions. Exchange differences resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in currencies other than the functional currency of the entity are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

3 Presentation of financial information and accounting policies (continued)

Currency translation (continued)

The balance sheets of foreign operations are translated into pound sterling using the exchange rate at the balance sheet date and the income statements are translated into pound sterling using the average exchange rate for the year. Where this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, the exchange rate on the transaction date is used.

Exchange differences arising upon consolidation are taken to the cumulative translation reserve in equity. The cumulative exchange difference held in shareholders' equity in respect of an operation is transferred to the consolidated income statement upon disposal.

Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received and is recognised when the Group has transferred the significant risks and rewards of ownership of the goods and services to the buyer, when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured net of discounts, value added tax and other sales related taxes.

Revenue is typically recognised once the Group has performed its services for the customer, evidenced either by delivery of finished goods or other evidence of completion of work.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Operating profit

Operating profit is defined as revenue from continuing operations less related expenses and is stated before the share of post-tax profits/(losses) of associates and joint ventures and before investment income, other gains and losses, finance costs and taxation.

Exceptional items

Exceptional items are items of income or expense considered by the directors, either individually or if of a similar type in aggregate, as being either material or significant and which require disclosure in order to provide a view of the Group's results excluding these items.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

3 Presentation of financial information and accounting policies (continued)

Employee benefits

The Group operates defined benefit pension plans and defined contribution pension plans.

A defined benefit pension plan is one that specifies the amount of pension benefit that an employee will receive on retirement. The Group operates a number of funded defined benefit pension plans, where actuarially-determined payments are made to trustee-administered funds.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group accounts for actuarial gains and losses in full through the statement of recognised income and expense in the year in which they occur.

The current service cost and gains and losses on settlements and curtailments are included in distribution costs and administrative expenses in the consolidated income statement. Past service costs, if any, are similarly included where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period.

The expected return on assets of funded defined benefit pension plans is recorded in other gains and losses in the consolidated income statement. The expected interest on pension plan liabilities is recorded in finance costs in the consolidated income statement.

A defined contribution plan is one under which fixed contributions are paid to a third party. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised in the consolidated income statement when they are due.

Share-based payments

The Group operates various equity-settled incentive schemes for certain employees. For equity-settled share options and awards, the services received from employees are measured by reference to the fair value of the share options or awards granted. Fair value is calculated at grant date and recognised in the consolidated income statement, together with a corresponding increase in shareholders' equity, on a straight-line basis over the vesting period, based on an estimate of the number of options or awards that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating fair value.

Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

3 Presentation of financial information and accounting policies (continued)

Segment reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. A business segment is a component of the Group that is engaged in providing a group of related products and is subject to risks and returns that are different from those of other business segments. A geographical segment is a component of the Group that operates within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

Segment result is operating profit for each segment.

Goodwill

Goodwill acquired in business combinations represents the excess of the cost of a business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture at the date of acquisition. Goodwill is carried at cost less any accumulated impairment loss. Goodwill is tested at least annually for impairment or if circumstances indicate that the carrying value may be impaired. Any impairment is calculated in accordance with IAS 36 "Impairment of assets" and is recognised immediately in the income statement and is not subsequently reversed. Goodwill subsisting on disposal of the related operation is taken to the consolidated income statement as part of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Cost comprises purchase price and directly attributable costs.

Freehold land and assets under construction are not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful economic lives as follows:

Freehold buildings	50 years
Leasehold property	Term of lease
Plant and machinery, including motor vehicles	4 to 25 years
Fixtures, fittings, tools and equipment	5 years

Residual values and useful lives are reviewed at least at each financial year end.

3 Presentation of financial information and accounting policies (continued)

Research and development

Expenditure on research is recognised as an expense in the consolidated income statement as incurred. Expenditure incurred on development projects is capitalised as an intangible asset from the point that it is probable that the expenditure will generate sufficient future economic benefits and the costs can be measured reliably. Previously expensed development expenditure is not reinstated in the consolidated balance sheet.

Impairment of assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes an estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is written down to its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. The present value of estimated future cash flows is calculated using discount rates reflecting the risks specific to that asset and the current market assessment of the time value of money for the value in use calculation. Impairments are recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a first-in, first-out or a weighted average cost basis. Cost comprises directly attributable purchase and conversion costs and an allocation of production overheads based on normal operating capacity. Net realisable value is the estimated selling price less estimated costs of completion and selling costs.

Cash and cash equivalents

Cash and cash equivalents for the purposes of the consolidated cash flow statement comprise cash at bank and in hand, money market deposits and other short-term highly liquid investments with original maturities at acquisition of three months or less, and bank overdrafts. Bank overdrafts are shown within current liabilities in the consolidated balance sheet.

3 Presentation of financial information and accounting policies (continued)

Provisions

Provisions are recognised when a present obligation (legal or constructive) exists in respect of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and where the amount can be reliably estimated by the directors. Where the impact is material, provisions are discounted.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Leases

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Group. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the liability and finance charge to produce a constant rate of interest on the finance lease balance outstanding. Assets capitalised under finance leases are depreciated over the shorter of the useful economic life of the asset or the lease term.

Leases other than finance leases are classified as operating leases. Payments made under operating leases are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Tax

The Group's liability for current tax, including UK and foreign tax, is provided at amounts expected to be paid or recovered using tax rates that have been enacted or substantially enacted by the balance sheet date.

Tax expense represents the sum of tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from reported profit in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities used in the computation of taxable profit and their carrying amounts in the financial statements. Deferred tax arising from initial recognition of an

3 Presentation of financial information and accounting policies (continued)

Tax (continued)

asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, is not recognised.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible differences can be utilised. Deferred tax is provided for on unremitted earnings within the Group where it is expected that these earnings will be distributed in the future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are not discounted.

Non-current assets held for sale (applicable from 2 January 2005)

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

Borrowing costs

Borrowing costs are recognised in the income statement in the year in which they are incurred.

Financial instruments (UK GAAP accounting policies applicable up to 1 January 2005)

The Group uses derivative financial instruments to hedge its exposures to fluctuations in foreign exchange rates. The derivative financial instruments used comprise foreign exchange swaps and forward foreign exchange contracts.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

3 Presentation of financial information and accounting policies (continued)

Financial instruments (IFRS accounting policies applicable from 2 January 2005)

Gains and losses on foreign currency hedges are recognised on the maturity of the underlying transaction, other than the translational hedges of foreign currency investments which are taken to reserves.

Further discussion of the Group's treasury policies are contained in the Financial review and in note 29.

Derivative financial instruments are measured at fair value through the consolidated income statement where hedge accounting conditions are not met. Derivative financial instruments utilised by the Group principally comprise forward foreign exchange contracts.

Gains and losses on foreign currency hedges are recognised on the maturity of the underlying transaction, other than the translational hedges of foreign currency investments which are taken to reserves.

The principles of hedge accounting are applied where the requirements set out in IFRS affording such treatment have been met and the resulting gains and losses on hedging instruments are taken to equity. Gains or losses arising from changes in fair value of derivative financial instruments not accounted for using hedge accounting are recognised in the consolidated income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in income when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Interest-bearing bank loans and overdrafts are measured at fair value and subsequently at amortised cost.

Trade payables are measured initially at fair value and subsequently at amortised cost using the effective interest rate method.

3. Presentation of financial information and accounting policies (continued)

Financial instruments (IFRS accounting policies applicable from 2 January 2005) (continued)

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

Due to the large cash balances held by the Group, the Group is exposed to credit risks with counterparty banks. In particular, the Group has cash balances with banks located in the Republic of South Africa, Australia, China and the United States; and consequently has an exposure to those banking sectors. The balances are held with large commercial banks otherwise, the Group has no significant concentrations of credit risk. The Group has policies requiring the credit checks on potential customers of a particular size before sales commence. The amount of exposure to any individual counterparty is subject to ongoing review by the Treasury Committee, which reports to the Board.

Dividends

IAS 10 provides that any dividends declared after the year end represent a non-adjusting post-balance sheet event and therefore, no liability is recognised until the dividend is declared and payable to shareholders.

Share capital

The ordinary and cumulative non-redeemable preference shares are classified as equity instruments, and are recorded at the proceeds received, net of direct issue costs.

Investments in own shares (held through an Employee Share Ownership Trust) are shown at cost as a deduction from shareholders' equity and shown under the heading "Employee Share Ownership Trust" in the consolidated balance sheet. The costs of administration of the Employee Share Ownership Trust are included in the consolidated income statement as they accrue. Dividends on shares held by the Trust have been waived.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

4 Business and Geographical segments

Business segments

For management purposes, the Group is organised into three operating divisions: Electrolytic Manganese Dioxide, Galvanizing and Industrial Supplies. These divisions are the basis on which the Group reports its primary segment information. Principal activities are as follows:

Electrolytic Manganese Dioxide	Manufacture and distribution of electrolytic manganese dioxide for use in the manufacture of primary batteries
Galvanizing	Provision of hot-dip galvanizing services and manufacture and distribution of galvanized steel products
Industrial Supplies	Provision of goods and services to the mining and plastic injection moulding industries, including grinding media

Continuing operations

2005

£ million	Electrolytic Manganese Dioxide	Galva-nizing	Industrial Supplies	**Total**
Revenue	**45.4**	**145.1**	**51.5**	**242.0**
Result				
Segment result	3.2	16.4	5.2	**24.8**
Unallocated group costs				**(4.0)**
Operating profit from continuing operations				**20.8**
Share of post-tax losses of associates and joint ventures				**(8.3)**
Investment income				**7.4**
Other gains and losses				**31.9**
Finance costs				**(40.1)**
Profit before tax				**11.7**
Tax				**(13.4)**
Loss for the year from continuing operations				**(1.7)**

£ million	Electrolytic Manganese Dioxide	Galva-nizing	Industrial Supplies	**Total**
Capital additions	2.1	3.5	0.6	**6.2**
Depreciation	3.4	4.6	0.9	**8.9**

Segment information in respect of discontinued operations is given in note 11.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

4 Business and Geographical segments (continued)

Continuing operations (continued)

2005 (continued)

Sales revenue by geographical market

£ million	2005
Europe (including UK)	**20.4**
Asia Pacific	**186.9**
North America	**31.9**
Near and Middle East	**1.8**
Africa	**1.0**
	242.0

2004

£ million	Electrolytic Manganese Dioxide	Galva-nizing	Industrial Supplies	Total
Revenue	**33.8**	**124.7**	**42.1**	**200.6**
Result				
Segment result	3.2	12.5	3.4	**19.1**
Unallocated group costs				**(4.0)**
Operating profit from continuing operations				**15.1**
Share of post-tax losses of associates and joint ventures				**(2.3)**
Investment income				**4.1**
Other gains and losses				**32.0**
Finance costs				**(36.0)**
Profit before tax				**12.9**
Tax				**(2.9)**
Profit for the year from continuing operations				**10.0**

£ million	Electrolytic Manganese Dioxide	Galva-nizing	Industrial Supplies	Total
Capital additions	3.2	3.7	0.9	**7.8**
Depreciation	2.4	5.0	1.3	**8.7**

Segment information in respect of discontinued operations is given in note 11.

4 Business and Geographical segments (continued)

Continuing operations (continued)

2004 (continued)

Sales revenue by geographical market

£ million	2004
Europe (including UK)	18.5
Asia Pacific	152.3
North America	27.4
Near and Middle East	0.6
Africa	1.8
	200.6

Total operations

2005

£ million	Electrolytic Manganese Dioxide	Galva-nizing	Industrial Supplies	**Total**
Assets				
Segment assets	74.6	91.2	26.9	**192.7**
Interests in associates and joint ventures				**1.6**
Retirement benefit asset				**1.3**
Deferred tax assets				**1.8**
Cash				**174.3**
Consolidated total assets				**371.7**
Liabilities				
Segment liabilities	(8.7)	(25.9)	(10.0)	**(44.6)**
Current and deferred tax liabilities				**(15.9)**
Overdrafts and loans				**(5.1)**
Retirement benefit obligation				**(3.5)**
Unallocated corporate liabilities				**(4.6)**
Provisions relating to previously disposed businesses				**(8.4)**
Consolidated total liabilities				**(82.1)**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

4 Business and Geographical segments (continued)

Total operations (continued)

2004

£ million	Electrolytic Manganese Dioxide	Galva-nizing	Industrial Supplies	**Total**
Assets				
Segment assets	72.0	87.3	85.8	245.1
Interests in associates and joint ventures				9.3
Deferred tax assets				3.2
Unallocated corporate assets				4.6
Retirement benefit asset				0.7
Cash				57.9
Consolidated total assets				320.8
Liabilities				
Segment liabilities	(8.8)	(19.7)	(31.7)	(60.2)
Current and deferred tax liabilities				(9.2)
Overdrafts and loans				(19.5)
Retirement benefit obligation				(15.1)
Unallocated corporate liabilities				(4.2)
Provisions relating to previously disposed businesses				(17.5)
Consolidated total liabilities				(125.7)

£ million	Total carrying amount of segment assets		Total additions to property, plant and equipment	
	At 31 December 2005	At 1 January 2005	**At 31 December 2005**	At 1 January 2005
Europe (including UK)	**2.9**	8.9	**-**	0.2
Asia Pacific	**128.3**	129.9	**5.0**	4.1
North America	**13.8**	12.8	**0.1**	0.2
Africa	**47.7**	93.5	**2.9**	6.2
	192.7	245.1	**8.0**	10.7

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

5 Exceptional items

Exceptional items are items of income or expense considered by the directors, either individually or if of a similar type in aggregate, as being either material or significant and which require disclosure in order to provide a view of the Group's results excluding these items.

Continuing operations

Exceptional profits on sale of fixed assets totalled £0.3 million (2004: £0.3 million).

The exceptional item of £8.5 million (2004: £nil) charged against the Group's share of post-tax profits (losses) of associates and joint ventures relates to the Group's share of the impairment of the carrying value of the assets of Manganese Metal Company (MMC). This impairment has also resulted in the reversal of a deferred tax liability of £0.6 million (2004: £nil) previously provided in respect of unremitted earnings of this associate, which has been reflected within tax expense.

The exceptional item of £3.5 million (2004: £nil) charged against finance costs relates to losses on forward foreign currency contracts incurred prior to hedge accounting the Group's share of South African rand denominated net assets and proceeds from the disposal of the South African Industrial Supplies businesses.

The exceptional item charged against tax relates to (i) 100% of the secondary tax on companies borne in Delta Electrical Industries Limited of £3.2 million as a result of the ZAR 6 per share interim distribution of proceeds from the sale of the South African Industrial Supplies businesses in December 2005; and (ii) deferred tax of £4.2 million relating to the Group's 56% share of the secondary tax on companies that will be borne in Delta Electrical Industries Limited following the declaration in February 2006 of the final distribution of proceeds from that transaction, of ZAR 14 per share payable in March 2006. Whilst not shown on the consolidated income statement, a credit to minority interest of £1.4 million relating to (i) is included. Additionally as described above, the reversal of a deferred tax liability of £0.6 million (2004: £nil) relating to MMC has been included within the tax expense.

Discontinued operations

The exceptional item credited against profit for the year from discontinued operations relates to (i) the net post-tax gain on sale of businesses during the year of £74.8 million (2004: £(1.7) million relating to the disposal of the Group's interest in Cobra); (ii) releases of creditors and provisions relating to disposed businesses of £9.4 million (2004: £1.2 million), and (iii) profits on sale of fixed assets of discontinued businesses of £1.5 million (2004: £1.3 million) (see note 11).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

6 Interests in associates and joint ventures

The Group's principal associates and joint ventures are given on pages 2 and 3 and listed in note 39.

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Interests in associates	**-**	7.8
Interests in joint venture	**1.6**	1.5
	1.6	9.3

Associates:

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Share of post-tax profits/(losses) of associates before exceptional asset impairment	**0.2**	(2.3)
Exceptional asset impairment	**(8.5)**	-
Share of post-tax losses of associates	**(8.3)**	(2.3)

£ million	**At 31 December 2005**	At 1 January 2005
Cost of investment	**2.8**	2.8
Exchange differences	**0.5**	-
Share of post-acquisition profits, net of dividends	**(3.3)**	5.0
Group's share of associates' net assets	**-**	7.8

Summarised financial information in respect of the Group's associates is set out below:

£ million	**At 31 December 2005**	At 1 January 2005
Total assets	**25.3**	35.1
Total liabilities	**(25.3)**	(19.2)
Net assets	-	15.9
Group's share of associates' net assets	-	7.8

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

6 Interests in associates and joint ventures (continued)

Associates (continued):

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Total revenue of associates	**41.6**	45.3
Total loss for the year of associates	**(16.9)**	(4.6)
Group's share of associates' losses for the year	**(8.3)**	(2.3)

The statutory annual financial statements of Manganese Metal Company (MMC) are made up to 30 June each year. For the purpose of applying the equity method of accounting, the latest monthly management accounts have been used, with appropriate adjustments made, for statutory reporting purposes.

Joint venture:

The share of post-tax results of the Group's joint venture was £nil (2004: £nil).

£ million	**At 31 December 2005**	At 1 January 2005
Cost of investment	**0.4**	0.4
Loans	**1.1**	1.1
Exchange differences	**0.1**	-
Share of post-acquisition profits, net of dividends received	**-**	-
Group's share of joint venture net assets	**1.6**	1.5

Summarised financial information in respect of the Group's joint venture is set out below:

£ million	**At 31 December 2005**	At 1 January 2005
Total assets	**5.4**	5.0
Total liabilities	**(2.2)**	(2.0)
Net assets	**3.2**	3.0
Group's share of joint venture net assets	**1.6**	1.5

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Total revenue of joint venture	**2.3**	1.8
Total profit/(loss) for the year of joint venture	**-**	-
Group's share of joint venture losses for the year	**-**	-

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

7 Investment income

£ million	Continuing operations **Year ended 31 December 2005**	Continuing operations Year ended 1 January 2005
Interest on bank deposits	**7.4**	4.1

8 Other gains and losses

£ million	Continuing operations **Year ended 31 December 2005**	Continuing operations Year ended 1 January 2005
Expected return on defined benefit pension scheme assets	**31.9**	32.0

9 Finance costs

£ million	Continuing operations **Year ended 31 December 2005**	Continuing operations Year ended 1 January 2005
Interest on bank overdrafts and loans	**4.3**	3.0
Expected interest on defined benefit pension scheme liabilities	**32.3**	33.0
Fair value loss on foreign exchange derivatives (see note 5)	**3.5**	-
	40.1	36.0

10 Tax

	Year ended 31 December 2005			Year ended 1 January 2005		
£ million	**Continuing**	**Discontinued**	**Total**	Continuing	Discontinued	Total
Current tax						
- UK (net of double tax relief)	-	-	-	-	-	-
- overseas	**9.9**	**9.6**	**19.5**	5.4	5.3	10.7
Deferred tax - current year						
- timing differences	**4.6**	**(0.4)**	**4.2**	(0.7)	0.1	(0.6)
Adjustment in respect of prior years						
- current	**(1.2)**	-	**(1.2)**	(1.1)	0.1	(1.0)
- deferred	**0.1**	-	**0.1**	(0.7)	-	(0.7)
Tax expense for the year	**13.4**	**9.2**	**22.6**	2.9	5.5	8.4

Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

10 Tax (continued)

The total charge for the year can be reconciled to the accounting profit as follows:

	Year ended 31 December 2005		Year ended 1 January 2005	
	£ million	**%**	£ million	%
Profit before tax:				
Continuing operations	**11.7**		12.9	
Discontinued operations	**105.4**		19.5	
	117.1		32.4	
Tax at the UK corporation tax rate of 30% (2004: 30%)	**35.1**	**30.0**	9.7	30.0
Tax effect of gain on sale of South African Industrial Supplies businesses (i)	**(19.5)**	**(16.7)**	-	-
Tax effect of tax-free release of provisions relating to disposed entities	**(2.9)**	**(2.5)**	(0.4)	(1.2)
Tax effect of expenses that are not deductible in determining taxable profit	**4.3**	**3.7**	0.9	2.8
Tax effect of utilisation of tax losses not previously recognised	**(0.1)**	**(0.1)**	(0.4)	(1.2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(0.4)**	**(0.3)**	(0.1)	(0.3)
Withholding tax (ii)	**7.8**	**6.7**	1.1	3.4
Adjustment in respect of prior years	**(1.1)**	**(0.9)**	(1.7)	(5.2)
Other	**(0.6)**	**(0.5)**	(0.7)	(2.2)
Tax expense and effective tax rate for the year	**22.6**	**19.3**	8.4	25.9

(i) £4.3 million of capital gains tax was incurred on the sale of the South African Industrial Supplies businesses. This liability was below 30% of the gain on sale for the following reasons: the South African capital gains tax rate is 14.5%; the base values for South African tax purposes were set in 2001 and the base values were higher than their corresponding book values.

(ii) Of the total, £3.2 million of withholding tax and £4.2 million of deferred withholding tax on un-remitted earnings arise from distributions within the Group and to DEI minority shareholders of the proceeds from the sale of the South African Industrial Supplies businesses.

11 Profit for the year from Discontinued Operations

Year ended 31 December 2005

£ million	Disposed businesses	Assets held for sale	Previously disposed and discontinued businesses	Total
Revenue	90.3	6.1	-	96.4
Expenses	(76.0)	(4.9)	9.4	(71.5)
Profit on sale of assets	-	-	1.5	1.5
Operating profit and profit before tax	**14.3**	**1.2**	**10.9**	**26.4**
Attributable tax expense	(4.5)	(0.5)	-	(5.0)
Profit after tax	**9.8**	**0.7**	**10.9**	**21.4**
Profit on sale of discontinued operations	79.0	-	-	79.0
Attributable tax expense	(4.2)	-	-	(4.2)
Profit after tax on sale of discontinued operations	**74.8**	**-**	**-**	**74.8**
Net profit attributable to discontinued operations	**84.6**	**0.7**	**10.9**	**96.2**

As detailed in note 12, the Group disposed of a number of businesses during the year, the operating results through to disposal and the post-tax gain on sale of which are shown in the table above.

All results included in disposed businesses and assets held for sale above relate to the Industrial Supplies business segment with revenue totalling £96.4 million (2004: £113.5 million) and segment result of £15.5 million (2004: £17.5 million). Included within continuing operations (see note 4) are revenues and segment result relating to the Industrial Supplies segment totalling £51.5 million (2004: £42.1 million) and £5.2 million (2004: £3.4 million) respectively. Consequently, total Industrial Supplies segment revenues were £147.9 million (2004: £155.6 million) and segment result £20.7 million (2004: £20.9 million).

In 2005, the geographical segmentation of discontinued operations' revenue by destination was: £67.2 million for Africa, £28.3 million for Asia Pacific, £0.8 million for Europe (including the UK) and £0.1 million for North America. In 2004, the geographic segmentation of discontinued operations' revenue by destination was: £82.3 million for Africa, £30.5 million for Asia Pacific and £0.7 million for Europe (including the UK).

In 2005, capital additions attributable to discontinued operations totalled £1.8 million (2004: £2.9 million) and depreciation totalled £1.4 million (2004: £1.8 million).

Disposed businesses contributed £24.3 million (2004: £27.6 million) to the Group's net operating cash flows, received £2.2 million (2004: payment of £0.7 million) in respect of investing activities and paid £0.7 million (2004: payment of £1.3 million) in respect of financing activities. Further information regarding disposed businesses is contained in note 12.

11 Profit for the year from Discontinued Operations (continued)

As disclosed in note 26, one of the Group's Industrial Supplies businesses in Australia met the criteria for classification as a disposal group at 31 December 2005, and been disclosed accordingly as held for sale.

Profits relating to previously disposed and discontinued businesses result from the Group's latest assessment of provisions, including taking account of warranty and indemnity periods that have expired up to the date of this annual report. Profit on sale of assets relates to the disposal of surplus assets of disposed businesses.

Year ended 1 January 2005

£ million	Disposed businesses	Assets held for sale	Previously disposed and discontinued businesses	Total
Revenue	107.8	5.7	-	113.5
Expenses	(91.4)	(4.6)	1.3	(94.7)
Profit on sale of assets	-	-	1.2	1.2
Operating profit	**16.4**	**1.1**	**2.5**	**20.0**
Share of post-tax profits of associate	1.2	-	-	1.2
Profit before tax	**17.6**	**1.1**	**2.5**	**21.2**
Attributable tax expense	(5.1)	(0.4)	-	(5.5)
Profit after tax	**12.5**	**0.7**	**2.5**	**15.7**
Loss on disposal of associate	-	-	(1.7)	(1.7)
Attributable tax expense	-	-	-	-
Loss after tax on sale of discontinued operations	-	-	**(1.7)**	**(1.7)**
Net profit attributable to discontinued operations	**12.5**	**0.7**	**0.8**	**14.0**

12 Disposal of businesses

Pursuant to its circular to shareholders dated 28 July 2005, the Group completed the disposal of its South African Industrial Supplies businesses on 30 September 2005 to a consortium comprising Ethos Private Equity Limited, Actis Africa Fund 2 LP, Old Mutual Life Assurance Company (South Africa) Limited and black economic partners Sphere Holdings (Proprietary) Limited and AKA Capital (Proprietary) Limited. Net proceeds received from the sale totalled £112.0 million after allowing for expenses pertaining to the sale. Following the write-off of capitalised goodwill, applicable taxes, and cumulative translation differences, a post-tax gain on sale of £75.1 million resulted, of which £36.3 million was attributable to minority interests. Results through to the date of sale and the gain on sale have been reported within discontinued operations (see note 11).

12 Disposal of businesses (continued)

Effective 30 September 2005 the Group sold its AustCast business in Australia to a management-led buyout team. Net proceeds from the sale totalled £1.6 million, of which £0.6 million is due to be received by the end of 2007. There was no gain or loss on the disposal. AustCast was previously reported as part of the Industrial Supplies business segment, and has now been reported within discontinued operations.

Effective 30 November 2005 the Group sold its Cutting Edges business in Australia to a management-led buyout team. Net proceeds from the sale totalled £5.7 million, of which £0.4 million is due to be received by the end of 2007. There was a loss on the disposal of £0.3 million. Cutting Edges was previously reported as part of the Industrial Supplies business segment, and has now been reported within discontinued operations.

Effective 30 December 2005 the Group sold its Australian underground corrugated steel structures business (UCSS) to Atlantic Industries Limited. Net proceeds from the sale totalled £0.9 million. There was no gain or loss on the disposal. The UCSS business was previously reported as part of the Galvanizing business segment with the results through to disposal reported within continuing operations.

The net assets at the dates of disposal and at the end of the comparative year were as follows:

£ million	**At dates of disposal**	At 1 January 2005
Property, plant and equipment	**9.8**	11.4
Deferred tax assets	**0.4**	0.7
Inventories	**21.0**	20.3
Trade and other receivables	**19.5**	22.8
Deferred tax liabilities	**-**	(0.2)
Current tax liabilities	**(0.3)**	(3.1)
Trade and other payables	**(15.5)**	(19.2)
Bank overdraft	**(0.5)**	(0.8)
Provisions	**(0.3)**	(2.1)
Attributable goodwill	**8.5**	8.4
	42.6	38.2
Provision	**0.3**	
Release of foreign currency translation reserve	**(1.7)**	
Pre-tax gain on disposal	**79.0**	
Total consideration	**120.2**	

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12 Disposal of businesses (continued)

£ million	At dates of disposal
Satisfied by:	
Cash	**119.2**
Deferred consideration	**1.0**
	120.2

Net cash inflow arising on disposal:	
Net cash consideration received	**119.2**
Overdrafts disposed of	**0.5**
	119.7

Of the £1.0 million deferred consideration, £0.1 million is current and the remainder non-current. The impact of the disposal of the Industrial Supplies businesses on the Group's results and cash flows in the current and prior year is disclosed in note 11.

13 Profit for the year

Profit for the year has been arrived at after charging:

£ million	Notes	**Year ended 31 December 2005**	Year ended 1 January 2005
Cost of inventories recognised as expense		**146.6**	131.6
Research and development costs		**0.3**	0.6
Depreciation of property, plant and equipment	**19**	**10.3**	10.5
Auditors' remuneration:			
- Auditing the accounts		**0.6**	0.4
- IFRS transition services		**0.2**	-
- Investment circular related to disposal of South African Industrial Supplies businesses		**0.1**	-
- Other: South African taxation services		**-**	0.1
Operating lease rentals: - land and buildings		**2.3**	2.3
- plant and equipment		**1.4**	0.9
Staff costs	**14**	**71.4**	73.2

Included in the above auditors' remuneration figure were audit fees in respect of the Company of £0.1 million (2004: £0.1 million).

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its UK subsidiary undertakings in respect of non-audit services were £0.3 million (2004: £0.1 million).

14 Staff costs

The average monthly number of employees (including executive directors) were:

Number	31 December 2005	1 January 2005
UK	**101**	118
Overseas	**4,338**	4,361
	4,439	4,479

The actual number of employees as at 31 December 2005 was 2,766, consisting of 98 (UK) and 2,668 (overseas). The average figures include nine months of staff from disposed businesses.

This is further analysed as follows:

Number	31 December 2005	1 January 2005
Electrolytic manganese dioxide	**352**	298
Galvanizing	**2,027**	2,049
Industrial supplies	**2,040**	2,108
Group administration	**20**	24
	4,439	4,479

£ million	Year ended 31 December 2005	Year ended 1 January 2005
The aggregate remuneration comprised:		
Wages and salaries	**65.5**	67.2
Social security costs	**1.1**	1.3
Other pension costs	**4.8**	4.7
	71.4	73.2

Wages and salaries include share-based payment expenses of £0.2 million (2004: £0.2 million).

15 Dividends

£ million	Year ended 31 December 2005	Year ended 1 January 2005
Preference:		
6.0% cumulative first preference shares and 4.5% cumulative second preference shares	**0.1**	0.1
Ordinary:		
Final dividend of 2.4 pence per share for the year ended 1 January 2005 (2003: 0.5 pence per share) paid in year	**3.7**	0.8
Interim of 1.0 pence per share (2004: 0.6 pence per share)	**1.5**	0.9
Proposed final dividend of 2.5 pence per share for the year ended 31 December 2005 (2004: 2.4 pence per share)	**3.8**	3.7

15 Dividends (continued)

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

16 Revenue

An analysis of revenue is as follows:

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Continuing operations		
Sales of goods	**242.0**	200.6
Investment income (see note 7)	**7.4**	4.1
Discontinued operations		
Sales (see note 11)	**96.4**	113.5

17 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. excluding those held in the Delta plc Employee Share Ownership Trust. which are treated as cancelled.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

Earnings per share before exceptional items is calculated by dividing earnings attributable to ordinary shareholders before exceptional items (see note 5) by the weighted average number of ordinary shares outstanding during the year. excluding those held in the Delta plc Employee Share Ownership Trust. which are treated as cancelled.

The denominators used are the same as those detailed below for both basic and diluted earnings per share from continuing and discontinued operations.

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17 Earnings per share (continued)

The calculation of the basic and diluted earnings per share is based on the following:

Number of shares

Million	**Year ended 31 December 2005**	Year ended 1 January 2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	**151.6**	151.2
Effect of dilutive potential ordinary shares: share options	**0.2**	0.1
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**151.8**	151.3

Earnings

From continuing operations

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Profit attributable to equity holders of the parent	**53.4**	17.3
Less: Profit for the year from discontinued operations	**(96.2)**	(14.0)
Add: Minority interest share of profit from discontinued operations	**39.9**	4.6
Less: Preference dividends	**(0.1)**	(0.1)
Earnings from continuing operations attributable to ordinary shareholders for the purposes of basic and diluted earnings per share	**(3.0)**	7.8

Earnings per share from continuing operations are a loss of 2.0p (2004: earnings of 5.2p).

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17 Earnings per share (continued)

From continuing operations before exceptional items

Profit from continuing operations has been significantly impacted by items relating to disposed businesses. Consequently, in order to provide additional clarity of the performance of the Group's continuing businesses, these items have been adjusted for earnings per share purposes as follows:

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Earnings from continuing operations attributable to ordinary shareholders for the purposes of basic and diluted earnings per share	**(3.0)**	7.8
Exceptional items related to continuing operations:		
Profit on sale of fixed assets	**(0.3)**	(0.3)
Fair value loss on foreign exchange derivatives	**3.5**	-
Secondary tax on companies on distribution of first tranche of proceeds from disposal of South African Industrial Supplies businesses	**3.2**	-
Less: Minority interest share of the above	**(1.4)**	-
Deferred tax as a result of the distribution of the final tranche of proceeds from disposal of South African Industrial Supplies businesses	**4.2**	-
Deferred tax release in respect of un-remitted earnings in associate	**(0.6)**	-
Impairment of share of net assets of associate	**8.5**	-
Total exceptional items related to continuing operations	**17.1**	(0.3)
Earnings from continuing operations before exceptional items attributable to shareholders for the purposes of basic and diluted earnings per share	**14.1**	7.5

Earnings per share from continuing operations before exceptional items are 9.3p (2004: 5.0p).

From continuing and discontinued operations

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Profit attributable to equity holders of the parent	**53.4**	17.3
Less: Preference dividends	**(0.1)**	(0.1)
Earnings from continuing and discontinued operations attributable to ordinary shareholders for the purposes of basic and diluted earnings per share	**53.3**	17.2

Earnings per share from continuing and discontinued operations are 35.2p (basic) and 35.1p (diluted) (2004: 11.4p basic and diluted).

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17 Earnings per share (continued)

From continuing and discontinued operations before exceptional items

Profit from continuing and discontinued operations has been significantly impacted by items relating to disposed businesses. Consequently, in order to provide additional clarity of the performance of the Group's businesses, these items have been adjusted for earnings per share purposes as follows:

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Profit attributable to equity holders of the parent, net of preference dividends	**53.3**	17.2
Total exceptional items related to continuing operations, net of minority interests (see above)	**17.1**	(0.3)
Exceptional items related to discontinued operations:		
Profit on sale of discontinued operations	**(74.8)**	-
Add minority interest share of the above	**36.3**	-
Releases of provisions related to disposed entities	**(9.4)**	(1.3)
Profit on sale of assets	**(1.5)**	(1.2)
Loss on disposal of associate	-	1.7
Earnings from continuing and discontinued operations before exceptional items attributable to ordinary shareholders for the purposes of basic and diluted earnings per share	**21.0**	16.1

Earnings per share from continuing and discontinued operations before exceptional items are 13.9p (basic) and 13.8p (diluted) (2004: 10.6p (basic and diluted)).

From discontinued operations

Earnings per share from discontinued operations are 37.2p (basic) and 37.1p (diluted) (2004: 6.2p (basic and diluted)) based on the profit for the year attributable to equity holders of the parent of £56.3 million (2004: £9.4 million) and the denominators detailed above for both basic and diluted earnings per share.

Earnings per share from discontinued operations before exceptional items are 4.6p (basic) and 4.5p (diluted) (2004: 5.6p (basic and diluted)), based on the profit for the year attributable to equity holders of the parent of £6.9 million (2004: £8.6 million) and the denominators detailed above for both basic and diluted earnings per share.

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17 Earnings per share (continued)

Net assets attributable to Delta shareholders per ordinary share

£ million	Year ended 31 December 2005	Year ended 1 January 2005
Net assets	**289.6**	195.1
Less: Minority interest	**(71.5)**	(44.3)
Net assets attributable to equity holders of the parent	**218.1**	150.8
Weighted average number of ordinary shares in issue, based on basic earnings per share (millions)	**151.6**	151.2
Net assets attributable to equity holders of the parent per ordinary share (pence)	**143.9p**	**99.7p**

18 Goodwill

£ million	Total
Cost	
At 3 January 2004	**15.0**
Exchange differences	0.5
At 1 January 2005	**15.5**
Exchange differences	(0.1)
Derecognised on disposal of businesses	(8.5)
Classified as held for sale	(0.2)
At 31 December 2005	**6.7**
Accumulated goodwill losses	
At 3 January 2004, 1 January 2005 and 31 December 2005	-
Carrying amount	
At 31 December 2005	**6.7**
At 1 January 2005	15.5

Goodwill at 31 December 2005 related to the following business segments: Electrolytic manganese dioxide £0.6 million (2004: £0.6 million); Galvanizing £6.1 million (2004: £5.9 million) and Industrial Supplies £nil (2004: £9.0 million).

Following the Group's disposal of the South African Industrial Supplies businesses in 2005 the Group's goodwill at 31 December 2005 totalled £6.7 million, being approximately 2% of the Group's total assets. Of that amount, £3.8 million relates to the Group's acquisition of Webforge in 2003. Webforge is reported within the Galvanizing business segment and Asia Pacific geographical segment.

18 Goodwill (continued)

The Group's accounting policy regarding impairment testing of goodwill is stated in note 3 and includes testing annually for impairment or more frequently if indicators of impairment exist. Whilst all capitalised goodwill is subject to the requirements of IAS 36 "Impairment of assets", goodwill apart from that in Webforge is individually insignificant and as such has not been analysed further below. All goodwill impairment testing uses a methodology similar to that described below.

The recoverable amounts of the Webforge cash generating units (CGUs) are determined from value in use calculations. The key assumptions used are those regarding discount rates, growth rates and expected changes to selling prices / market conditions and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows into perpetuity based on an estimated growth rate not in excess of the average long-term growth rate for the relevant countries and markets in which Webforge participates.

The rate used to discount the forecast cash flows is based on an estimate of Delta's weighted average cost of capital, as adjusted for factors specific to the particular CGU.

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19 Property, plant and equipment

£ million	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Total
Cost				
At 3 January 2004	55.2	114.4	18.3	187.9
Capital additions	2.9	6.2	1.6	10.7
Exchange differences	(3.9)	0.9	(0.2)	(3.2)
Disposals	(1.6)	(1.2)	(3.6)	(6.4)
At 1 January 2005	52.6	120.3	16.1	189.0
Capital additions	1.3	5.1	1.6	8.0
Exchange differences	5.7	2.6	0.9	9.2
Reclassified as held for sale	-	(1.5)	(0.4)	(1.9)
Disposal of businesses	(3.5)	(13.4)	(7.5)	(24.4)
Disposals	(6.8)	(2.6)	(1.5)	(10.9)
At 31 December 2005	**49.3**	**110.5**	**9.2**	**169.0**
Accumulated depreciation				
At 3 January 2004	(8.7)	(57.3)	(12.0)	(78.0)
Depreciation charge for the year	(1.3)	(7.0)	(2.2)	(10.5)
Exchange differences	1.2	0.4	0.2	1.8
Depreciation written back on disposed assets	0.1	0.9	2.1	3.1
At 1 January 2005	(8.7)	(63.0)	(11.9)	(83.6)
Depreciation charge for the year	(1.4)	(7.3)	(1.6)	(10.3)
Exchange differences	(1.1)	(3.4)	(0.8)	(5.3)
On assets reclassified as held for sale	-	1.2	0.4	1.6
Disposal of businesses	0.4	8.7	5.5	14.6
Depreciation written back on disposed assets	0.6	2.1	1.4	4.1
At 31 December 2005	**(10.2)**	**(61.7)**	**(7.0)**	**(78.9)**
Carrying amount				
At 31 December 2005	**39.1**	**48.8**	**2.2**	**90.1**
At 1 January 2005	43.9	57.3	4.2	105.4

Included in the above table are payments on account and assets in the course of construction:

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19 Property, plant and equipment (continued)

£ million	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Total
At 31 December 2005	**0.3**	**5.1**	**0.1**	**5.5**
At 1 January 2005	-	3.4	-	3.4

20 Subsidiaries

Details of the Group's principal companies (including associates and joint ventures) are contained on pages 2 and 3 and listed in note 39.

21 Deferred tax

(Assets)/liabilities £ million	Accel - erated tax depreciation of plant and equipment	Accel- erated tax depreciation and timing differences of property	Retirement benefit obligations	Un-remitted earnings	Tax losses	Accrued annual leave and other timing differences	Total
At 3 January 2004	**7.0**	**2.0**	**(0.2)**	**1.6**	**(2.6)**	**(5.8)**	**2.0**
Charge to equity for the year	-	0.1	-	-	-	-	0.1
Charge/(credit) to income for the year	0.9	(0.1)	0.3	(0.4)	(0.4)	(1.6)	(1.3)
Disposal of businesses	-	(0.1)	-	(0.6)	-	0.3	(0.4)
Exchange differences	(0.4)	-	-	-	-	0.5	0.1
At 1 January 2005	**7.5**	**1.9**	**0.1**	**0.6**	**(3.0)**	**(6.6)**	**0.5**
Charge/(credit) to equity for the year	-	-	0.1	-	-	-	0.1
Charge/(credit) to income for the year	(0.1)	(0.3)	0.2	3.6	0.1	0.8	4.3
Disposal of businesses	-	-	-	-	-	0.4	0.4
Exchange differences	0.1	-	-	-	-	0.2	0.3
At 31 December 2005	**7.5**	**1.6**	**0.4**	**4.2**	**(2.9)**	**(5.2)**	**5.6**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balance (after offset) for balance sheet purposes:

£ million	**At 31 December 2005**	At 1 January 2005
Deferred tax liabilities	**7.4**	3.7
Deferred tax assets	**(1.8)**	(3.2)
	5.6	0.5

21 Deferred tax (continued)

The accumulated losses reported by the Group for tax purposes in various tax jurisdictions include the following, most of which were incurred by disposed businesses. The following figures are subject to audit by tax authorities and do not include amounts recognised as deferred tax assets that are expected to be utilised in future: £93 million in Germany, £29 million in the UK, £11 million in the United States and £1 million in other jurisdictions. The future use, if any, of these accumulated losses will depend upon applicable tax rules and regulations, and upon the Group generating appropriate taxable income in those countries. Consequently, the figures include losses which it is improbable that the Group will be able to utilise in the future.

A deferred tax asset has not been recognised in respect of temporary differences in the UK as there is insufficient evidence that the asset will be recovered. The amount of the deductible temporary differences not recognised relates to capital allowances in excess of depreciation: (£31.0 million) and retirement benefit obligations (£3.5million). The asset would be recovered if there were suitable UK profits in the future.

A deferred tax liability of £6.2 million has not been recognised in respect of temporary differences of £140.8 million associated with retained profits in overseas subsidiaries, as these temporary differences are not expected to reverse.

22 Retirement benefit schemes

Defined contribution schemes

The Group operates a number of defined contribution retirement benefit schemes for qualifying employees. The related pension assets are held in trustee administered funds separate from the company, unless required otherwise by local best practice and regulations.

The total cost charged to income of £4.0 million (2004: £3.7 million) represents contributions payable to those schemes by the Group at rates specified in the rules of the respective schemes.

Defined benefit schemes

The Group operates funded defined benefit schemes for qualifying employees in the United Kingdom via the Delta Pension Plan (DPP) and Australia via the Delta Australia Superannuation Fund (DASF).

The most recent actuarial valuations of the pension schemes' assets and liabilities for financial reporting purposes was performed at 31 December 2005 by independent actuaries: Entegria Limited in respect of the DPP and Mercer Human Resource Consulting of Australia in respect of the DASF. The projected unit credit method was used for valuation purposes. Those actuarial valuations used the following principal assumptions:

22 Retirement benefit schemes (continued)

	DPP		DASF	
	31 December 2005	1 January 2005	**31 December 2005**	1 January 2005
Discount rate	**4.8%**	5.3%	**4.6%**	4.5%
Inflation rate	**2.8%**	2.8%	**2.5%**	2.5%
Expected return on equity instruments	**7.0%**	7.0%	**7.3%**	6.8%
Expected return on debt instruments	**4.1%**	4.5%	**4.8%**	4.3%
Expected return on property and cash	**5.2%**	5.5%	**5.5%**	4.6%
Expected rate of salary increases	**3.8%**	3.8%	**4.0%**	4.0%
Future pension increases	**3.0%**	3.0%	**N/a***	N/a*

* The members of the DASF receive a lump sum on retirement and no further pension payments.

The amounts recognised in income in respect of these defined benefit schemes are as follows:

		DPP		DASF		Total	
		Year ended		Year ended		Year ended	
£ million	Notes	**31 December 2005**	1 January 2005	**31 December 2005**	1 January 2005	**31 December 2005**	1 January 2005
Current service cost		**(0.4)**	(0.5)	**(0.4)**	(0.5)	**(0.8)**	(1.0)
Expected interest on defined benefit pension scheme liabilities	9	**(32.0)**	(32.7)	**(0.3)**	(0.3)	**(32.3)**	(33.0)
Expected return on defined benefit pension scheme assets	8	**31.4**	31.5	**0.5**	0.5	**31.9**	32.0
Amounts charged to the consolidated income statement		**(1.0)**	(1.7)	**(0.2)**	(0.3)	**(1.2)**	(2.0)
Actuarial gains		**12.3**	26.0	**0.3**	1.3	**12.6**	27.3
		11.3	24.3	**0.1**	1.0	**11.4**	25.3

Current service cost is included in distribution costs and administrative expenses. Actuarial gains are included in the consolidated statement of recognised income and expense.

The aggregated amount recognised in the consolidated balance sheet in respect of the Group's defined benefit pension schemes are as follows:

22 Retirement benefit schemes (continued)

£ million	DPP 31 December 2005	DPP 1 January 2005	DASF 31 December 2005	DASF 1 January 2005	Total 31 December 2005	Total 1 January 2005
Fair value of plan assets	**663.5**	605.7	**7.1**	6.0	**670.6**	611.7
Present value of plan liabilities	**(667.0)**	(620.8)	**(5.8)**	(5.3)	**(672.8)**	(626.1)
Net (liability)/asset recognised in the consolidated balance sheet	**(3.5)**	(15.1)	**1.3**	0.7	**(2.2)**	(14.4)
Disclosed in the consolidated balance sheet as:						
Retirement benefit asset					**1.3**	0.7
Retirement benefit obligation					**(3.5)**	(15.1)

Movements in the present value of the net liability were as follows:

£ million	DPP 31 December 2005	DPP 1 January 2005	DASF 31 December 2005	DASF 1 January 2005	Total 31 December 2005	Total 1 January 2005
Net liability/(asset) at start of year	**15.1**	39.8	**(0.7)**	1.2	**14.4**	41.0
Current service cost	**0.4**	0.5	**0.4**	0.5	**0.8**	1.0
Contributions	**(0.3)**	(0.4)	**(0.5)**	(0.9)	**(0.8)**	(1.3)
Net interest cost/(credit)	**0.6**	1.2	**(0.2)**	(0.2)	**0.4**	1.0
Actuarial gain	**(12.3)**	(26.0)	**(0.3)**	(1.3)	**(12.6)**	(27.3)
Net liability/(asset) at end of year	**3.5**	15.1	**(1.3)**	(0.7)	**2.2**	14.4

Movements in the fair value of plan liabilities were as follows:

£ million	DPP 31 December 2005	DPP 1 January 2005	DASF 31 December 2005	DASF 1 January 2005	Total 31 December 2005	Total 1 January 2005
Opening fair value of plan liabilities	**620.8**	620.8	**5.3**	7.5	**626.1**	628.3
Service cost	**0.4**	0.5	**0.4**	0.5	**0.8**	1.0
Interest cost	**32.0**	32.7	**0.3**	0.3	**32.3**	33.0
Contributions	**0.1**	0.1	**0.1**	0.1	**0.2**	0.2
Actuarial losses/(gains)	**47.4**	(0.5)	-	(0.8)	**47.4**	(1.3)
Benefits paid	**(33.7)**	(32.8)	**(0.3)**	(2.3)	**(34.0)**	(35.1)
Closing fair value of plan liabilities	**667.0**	620.8	**5.8**	5.3	**672.8**	626.1

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22 Retirement benefit schemes (continued)

Movements in the fair value of plan assets were as follows:

	DPP		DASF		Total	
£ million	31 December 2005	1 January 2005	31 December 2005	1 January 2005	31 December 2005	1 January 2005
Opening fair value of plan assets	**605.7**	581.0	**6.0**	6.3	**611.7**	587.3
Expected return on plan assets	**31.4**	31.5	**0.5**	0.5	**31.9**	32.0
Actuarial gains	**59.7**	25.5	**0.3**	0.5	**60.0**	26.0
Employer contributions	**0.3**	0.4	**0.5**	0.9	**0.8**	1.3
Member contributions	**0.1**	0.1	**0.1**	0.1	**0.2**	0.2
Benefits paid	**(33.7)**	(32.8)	**(0.3)**	(2.3)	**(34.0)**	(35.1)
Closing fair value of plan assets	**663.5**	605.7	**7.1**	6.0	**670.6**	611.7

The actual return on plan assets were as follows: (i) DPP £91.1 million (2004: £57.0 million); (ii) DASF £0.8 million (2004: £1.0 million); (iii) total £91.9 million (2004: £58.0 million).

Employer contributions in 2006 are expected to approximate those in 2005.

Scheme assets are analysed as follows:

	DPP		DASF		Total	
£ million	31 December 2005	1 January 2005	31 December 2005	1 January 2005	31 December 2005	1 January 2005
Equity instruments	**202.3**	183.0	**4.5**	4.0	**206.8**	187.0
Debt instruments	**413.4**	376.4	**1.5**	1.3	**414.9**	377.7
Property and cash	**47.8**	46.3	**1.1**	0.7	**48.9**	47.0
	663.5	605.7	**7.1**	6.0	**670.6**	611.7

The expected rates of return on scheme assets are disclosed above. The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by the Group.

22 Retirement benefit schemes (continued)

The five-year history of aggregate experience adjustments is as follows:

£ million	**2005**	2004	2003	2002	2001
Fair value of scheme liabilities	**672.8**	626.1	628.3	717.5	620.5
Fair value of scheme (assets)	**(670.6)**	(611.7)	(587.3)	(596.8)	(653.7)
Deficit/(surplus) in the schemes	**2.2**	14.4	41.0	120.7	(33.2)
Experience adjustments on schemes' liabilities					
Losses/(gains) (£m)	**47.4**	(1.3)	(13.5)	1.2	-
Percentage of schemes' liabilities	**7.05%**	(0.21%)	(2.15%)	0.17%	-
Experience adjustments on schemes' assets					
Gains/(losses) (£m)	**60.0**	26.0	20.0	(68.2)	-
Percentage of schemes' assets	**8.95%**	4.25%	3.41%	(11.43%)	-

Additional information with respect to the Delta Pension Plan

The scheme assets of the Delta Pension Plan at 31 December 2005 may be further analysed as follows:

£ million	**2005**
UK actively managed	35.0
UK index tracking	64.5
Non UK actively managed	69.3
Non UK index tracking	33.5
Total equity instruments	**202.3**
Non UK government bonds - fixed interest	89.0
UK government bonds - index linked	29.0
UK corporate bonds	5.1
UK government bonds	290.3
Total debt instruments	**413.4**
Property and cash	**47.8**
	663.5

87% of the asset value above is managed by Merrill Lynch Investment Managers, Legal & General Investment Management, and UBS Global Asset Management. The Trustee receives advice regarding investment strategy and asset allocation from Watson Wyatt.

The Group continues to make pension contributions to the Delta Pension Plan for current participants. At 30 November 2005 there were 19,184 members in total, comprising 10,656 pensioners (including any dependants' pensions in payment), 8,448 deferred participants and 80 current participants.

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22 Retirement benefit schemes (continued)

At the year end, approximately two-thirds of the total participants were male and one-third of the participants were female. The approximate average ages of pensioners (including any dependants being paid), deferred participants and current participants at the year end were 71, 49 and 45 respectively.

The most recent triennial actuarial valuation was completed as at 5 April 2003, which assumed that the mortality experience of the plan members would be in accordance with the AM80/AF80 and PMA80C10/PFA80C10 mortality tables. This was consistent with the results of an investigation into the mortality experience of the scheme. The following assumptions were also employed: pre-retirement investment return: 6.5%; post-retirement investment return: 5.3%; annual increase in pensionable earnings: 3.5%; annual pension increases: from 2.5% to 3.0%; and price inflation: 2.5%. The next valuation of the Delta Pension Plan is to be carried out with an effective date of 5 April 2006.

23 Inventories

£ million	At 31 December 2005	At 1 January 2005
Raw materials	**19.4**	18.7
Work-in-progress	**4.2**	6.9
Finished goods	**28.1**	42.2
	51.7	67.8

Inventories classified as part of assets held for sale were £1.4 million (see note 26).

24 Trade and other receivables

£ million	At 31 December 2005	At 1 January 2005
Amounts falling due after one year:		
Other receivables	**1.3**	0.7
Other receivables	**1.3**	0.7
Amounts falling due within one year:		
Trade receivables	**35.1**	50.3
Other receivables	**2.2**	2.7
Corporate tax receivables	**0.2**	1.3
Prepayments and accrued income	**1.9**	1.8
Trade and other receivables	**39.4**	56.1

Included within trade receivables above are provisions for doubtful debts totalling £2.0 million (2004: £2.8 million). The carrying value of trade and other receivables approximates fair value.

25 Cash, bank overdrafts and loans

£ million	At 31 December 2005	At 1 January 2005
Cash (i)	**174.3**	57.9
Bank overdrafts	**(1.7)**	(15.9)
Cash and cash equivalents	**172.6**	42.0
Bank loans	**(3.4)**	(3.6)
	169.2	38.4

(i) Cash as at 31 December 2005 includes money market funds of £26.7 million (2004: £19.5 million) and bank and other deposits repayable in excess of 24 hours' notice of £46.4 million (2004: £11.5 million).

(ii) £114.1 million (2004: £7.4 million) of the Group's net cash is subject to exchange controls or similarly restricted.

The borrowings are repayable as follows:

£ million	At 31 December 2005	At 1 January 2005
On demand or within one year	**(5.1)**	(18.8)
In the second year	**-**	(0.7)
	(5.1)	(19.5)

The carrying amounts of the Group's cash balances and borrowings are denominated in the following currencies:

At 31 December 2005

£ million	GBP	AUD	ZAR	USD	Other	Total
Cash	**28.2**	**26.2**	**107.3**	**7.4**	**5.2**	**174.3**
Bank overdrafts	**(0.2)**	**-**	**(1.2)**	**-**	**(0.3)**	**(1.7)**
Bank loans	**-**	**(1.5)**	**-**	**-**	**(1.9)**	**(3.4)**
	28.0	**24.7**	**106.1**	**7.4**	**3.0**	**169.2**

At 1 January 2005

£ million	GBP	AUD	ZAR	USD	Other	Total
Cash	15.5	12.9	18.9	1.9	8.7	57.9
Bank overdrafts	(0.2)	-	(14.5)	(0.5)	(0.7)	(15.9)
Bank loans	-	(1.2)	-	(0.7)	(1.7)	(3.6)
	15.3	11.7	4.4	0.7	6.3	38.4

Included in the "other" cash balance at 1 January 2005 is £4.2 million of money market funds previously classified as "GBP" cash balances.

25 Cash, bank overdrafts and loans (continued)

The weighted average interest rates applied are as follows:

Year ended 31 December 2005

	GBP	AUD	ZAR	USD	Other	Total
Cash	**4.2%**	**5.4%**	**6.6%**	**3.3%**	**1.0%**	**5.7%**
Bank overdrafts	**4.0%**	-	**10.5%**	-	**1.0%**	**7.0%**
Bank loans	-	**6.0%**	-	-	**5.3%**	**5.6%**

Year ended 1 January 2005

	GBP	AUD	ZAR	USD	Other	Total
Cash	4.0%	4.5%	6.8%	1.2%	2.4%	4.9%
Bank overdrafts	4.0%	-	10.1%	-	3.5%	7.3%
Bank loans	-	6.0%	-	6.2%	5.2%	5.6%

All Group cash balances and borrowings attract interest at floating rates, thus exposing the Group to cash flow interest risk.

The directors estimate that the fair value of the Group's cash balances and borrowings are equal to the book value shown, principally as there are no fixed rate cash or borrowings.

The other principal features of the Group's cash balances and borrowings are as follows:

(i) Bank overdrafts are repayable on demand

(ii) Overdrafts of £0.3 million (2004: £0.9 million) have been secured by a charge over certain of the Group's assets; and

(iii) Bank loans of £3.4 million (2004: £3.6 million) are unsecured.

At 31 December 2005, the Group had available £30.5 million of undrawn committed facilities in respect of which all conditions precedent had been met.

26 Non-current assets and associated liabilities classified as held for sale

The requirements under IFRS 5 with respect to the proposed disposal of one Australian Industrial Supplies business and one Galvanizing business were met from 30 November 2005. These businesses, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and presented separately in the balance sheet. Consequently, depreciation of fixed assets ceased on that date and assets of £3.5 million and liabilities of £1.4 million have been reclassified as held for sale.

26 Non-current assets and associated liabilities classified as held for sale (continued)

The Australian Industrial Supplies business has been included within discontinued operations whilst the Galvanizing business remains in continuing operations in the consolidated income statement.

At 31 December 2005

£ million	Subsidiaries held for sale
Goodwill	0.2
Property, plant and equipment	0.3
Inventories	1.4
Trade and other receivables	1.4
Deferred tax assets	0.2
Total assets classified as held for sale	**3.5**
Trade and other payables	(0.9)
Current tax liabilities	(0.5)
Total liabilities associated with assets classified as held for sale	**(1.4)**
Net assets of disposal groups	**2.1**

The proceeds of disposal are expected to substantially exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these businesses as held for sale.

The assets and liabilities of these businesses are reported as part of the Industrial Supplies business segment and Asia Pacific geographic segment (see note 4).

27 Trade and other payables

£ million	At 31 December 2005	At 1 January 2005
Amounts due within one year:		
Trade payables	**15.6**	26.2
Amounts owed to associates	**0.7**	0.4
Other payables	**5.8**	8.0
Other taxation and social security payables	**0.8**	1.3
Accruals and deferred income	**19.2**	22.0
	42.1	57.9

The carrying amount of trade and other payables approximates fair value.

28 Provisions

£ million	Disposed entities (i)	Other (ii)	Insurance	Total
At 1 January 2005	17.5	5.0	1.5	24.0
Additional provision in the year	-	0.3	-	0.3
Utilisation of provision in the year	(1.5)	(2.0)	(0.4)	(3.9)
Release of provisions in the year	(8.6)	(0.1)	(1.1)	(9.8)
Reclassification from creditors	1.0	-	-	1.0
Transfers out on disposal of subsidiary	-	(0.3)	-	(0.3)
Exchange adjustments	-	0.1	-	0.1
At 31 December 2005	**8.4**	**3.0**	**-**	**11.4**
Analysed as:				
Current liabilities	2.2	-	-	2.2
Non-current liabilities	6.2	3.0	-	9.2
	8.4	**3.0**	**-**	**11.4**

(i) Provisions in respect of disposed entities relate to the current estimate of future liabilities expected to arise as a result of businesses disposed.

(ii) Includes environmental and employee-related provisions.

The majority of cash outflows to settle provisions at 31 December 2005 are currently expected to be over the next three to five years.

29 Derivative financial instruments

The Group's fundamental treasury policy remains one of risk management and control, and not to undertake speculative transactions. Group treasury does not operate as a profit centre, and all activities are closely monitored by the Group Treasury Committee, which has a mandate to make recommendations to the Board on matters of treasury policy and to implement policies approved by the Board.

Material currency exposures arising from trading transactions at most of the Group's businesses are covered as they arise.

The sterling value of operating profits arising in other currencies also are not hedged. Consequently, the sterling value of overseas profits remains subject to currency exchange movements. The US dollar was used as the functional currency for MMC.

The Group does not normally use net investment hedging to protect the sterling value of its non-sterling assets. However the Group did hedge to protect its share of the sterling value of the assets and proceeds from disposal of the South African Industrial Supplies businesses.

Group treasury monitors interest rate exposures. At present the Group has no significant interest rate exposures, and consequently the Group has no outstanding interest rate hedges.

29 Derivative financial instruments (continued)

Due to the large cash balances held by the Group, the Group is exposed to credit risks with counterparty banks. In particular, the Group has cash balances with banks located in the Republic of South Africa, Australia, China and the United States; and consequently has an exposure to those banking sectors. The balances are held with large commercial banks.

	2005		2004	
£ million	**Book Value**	**Fair Value**	Book Value	Fair Value
Foreign exchange contracts				
Net investment hedges	-	**(2.7)**	-	-
Forward exchange contracts	-	-	-	-
	-	**(2.7)**	-	-
Analysed as:				
Non-current	-	-	-	-
Current	-	**(2.7)**	-	-
	-	**(2.7)**	-	-

At the balance sheet date, the total notional amount of outstanding foreign exchange contracts that the Group has committed was £51.9 million (2004: £8.7 million).

Fair value losses on currency derivatives that are designated and effective as fair value losses on net investment hedges amounting to £2.5 million (2004: £nil) have been charged to equity.

£3.5 million has been charged in the income statement in respect of fair value losses on derivatives for which hedge accounting was not available.

Currency derivatives

The Group utilises currency derivatives to hedge its exposure to fluctuations in foreign exchange rates. The derivative instruments used are foreign exchange swaps and forward foreign exchange contracts. The Group does not trade in financial instruments, so there are no derivatives held for trading purposes.

Net investment hedges

The Group has taken out net investment hedges to hedge the sterling value of the proceeds from the sale of the South African Industrial Supplies businesses and to hedge the balance sheet value of the assets prior to their sale. The sale proceeds remained held in South African rand at the balance sheet date. The hedging instruments used are forward foreign exchange contracts. The fair values of these contracts at the balance sheet date are set out in the table above and are recorded through the income statement.

29 Derivative financial instruments (continued)

Intra-group loan economic hedges

The Group has taken out financial instruments to economically hedge the sterling value of loans granted (or payable) by Delta plc and other Group companies, where the loan is not in Delta plc's functional currency (pounds sterling). The financial instruments used are forward foreign exchange contracts. The fair value of these contracts at the balance sheet date are set out in the table above.

The following methodology has been used to establish estimated fair values:

Item	**Method**
Cash at bank, short term borrowings	The fair value of these items approximates to the carrying amount.
Foreign exchange deals	Fair value is calculated by marking each contract to market at appropriate spot or forward exchange rates prevailing at the balance sheet date.

30 Share capital, share premium and Employee Share Ownership Trust

£ million	**At 31 December 2005**	At 1 January 2005
Share Capital:		
Ordinary shares	**38.2**	37.9
Preference shares	**2.8**	2.8
	41.0	40.7

Ordinary shares

	Ordinary shares		Share premium	
£ million	**At 31 December 2005**	At 1 January 2005	**At 31 December 2005**	At 1 January 2005
Authorised:				
188 million ordinary shares of 25p each	**47.0**	47.0	**-**	-
Issued and fully paid:				
At the beginning of the year	**37.9**	37.9	**32.5**	32.5
Exercise of share options	**0.3**	-	**0.7**	-
At the end of the year	**38.2**	37.9	**33.2**	32.5

The Company has one class of ordinary shares.

The total number of authorised ordinary shares was 188,000,000 (2004: 188,000,000) and 152,724,509 shares allotted and fully paid at 31 December 2005 (2004: 151,697,846).

30 Share capital, share premium and Employee Share Ownership Trust (continued)

During the year, the Company issued a total of 1,026,663 ordinary shares pursuant to (i) the Delta Executive Share Option Scheme (881,717 shares), and (ii) Save As You Earn and International Save As You Earn share option schemes (144,946 shares) for a total consideration of £1.0 million (2004: £nil). This resulted in an increase of £0.3 million to share capital and £0.7 million to the share premium account. The 144,946 ordinary shares of 25p each under the Save As You Earn share option scheme at 72p, 82p and 108p and the International Save As You Earn share option scheme at 82p had an aggregate nominal value of £36,000 and consideration received of £0.1 million.

Preference shares

£ million	6% Cumulative first preference shares At 31 December 2005	6% Cumulative first preference shares At 1 January 2005	4.5% Cumulative second preference shares At 31 December 2005	4.5% Cumulative second preference shares At 1 January 2005
Authorised:				
1 million ordinary shares of £1 each / 2 million ordinary shares of £1 each	**1.0**	1.0	**2.0**	2.0
Issued and fully paid:				
At the beginning of the year	**0.9**	0.9	**1.9**	1.9
At the end of the year	**0.9**	0.9	**1.9**	1.9

The total number of authorised cumulative first preference shares was 1,000,000 (2004: 1,000,000) and 866,152 shares allotted and fully paid at 31 December 2005 (2004: 866,152). The total number of authorised cumulative second preference shares was 2,000,000 (2004: 2,000,000) and 1,940,000 shares allotted and fully paid at 31 December 2005 (2004: 1,940,000).

The preference shares are not redeemable.

Employee Share Ownership Trust

Shares in the Employee Share Ownership Trust (ESOT) are valued at their original cost and deducted from equity. At 31 December 2005, the 514,609 shares (2004: 514,609 shares) held by the ESOT had a market value of £0.6 million (2004: £0.5 million). Dividend income payable to the ESOT has been waived. Further details of the operation of the long term incentive plan are given in the Directors' remuneration report.

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31 Hedging and translation reserves

£ million	Hedging reserve	Foreign currency translation reserve	Total
Balance at 3 January 2004	-	-	-
Exchange differences on translation of foreign operations	-	(3.5)	(3.5)
Balance at 1 January 2005	-	**(3.5)**	**(3.5)**
Exchange differences on translation of foreign operations	-	9.0	9.0
Exchange differences written back on disposals	-	(1.0)	(1.0)
Transfer of reserves (see note 32)	-	0.7	0.7
Fair value loss on hedging derivatives	(2.5)	-	(2.5)
Balance at 31 December 2005	**(2.5)**	**5.2**	**2.7**

32 Retained earnings

£ million	**Total**
Balance at 3 January 2004	**39.2**
Dividends paid	(1.8)
Profit for the year	17.3
Share-based payments	0.2
Actuarial gains for year	27.3
Tax on items taken direct to equity	(0.1)
Balance at 1 January 2005	**82.1**
Dividends paid	(5.3)
Profit for the year	53.4
Share-based payments	0.2
Actuarial gains for year	12.6
Tax on items taken direct to equity	(0.1)
Transfer of reserves (iii)	(0.7)
Balance at 31 December 2005	**142.2**

(i) The profit and loss account of the Group includes profits retained in overseas Group companies totalling £72.3 million (2004: £56.2 million) which could be subject to local exchange control regulations if distributed as dividends.

(ii) The profit and loss account of the Group includes retained net profits in associated companies of £3.8 million (2004: £4.8 million) of which £6.3 million (2004: £5.2 million) is retained overseas and which could be subject to local exchange control regulations if distributed as dividends.

(iii) The transfer between foreign currency translation reserve and retained earnings results from a refinement to the 2004 foreign currency translation reserve.

33 Share-based payments

IFRS 2 'Share based payments' has only been applied to equity instruments that were granted after 7 November 2002 and that had not vested before 1 January 2005.

Included within staff costs are expenses related to share-based payments totalling £0.2 million (2004: £0.2 million)

Save as you Earn schemes
The Company has a share option scheme for all employees of the Group. This is known as "Save As You Earn" (SAYE) and its international equivalent is known as "International Save As You Earn" (ISAYE). Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. In normal circumstances the options mature either 36, 60 or 84 months following grant and can be exercised within six months of the relevant maturity date. Options are forfeited if the employee leaves the Group before the option vests. There have been no SAYE grants since October 2002 and therefore this share-based payment scheme does not fall under IFRS 2.

Executive share option scheme (ESOS)

The Company has a share option scheme for executives of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The options are exercisable between three and ten years after the date on which the options were granted subject to performance criteria being met. Options are forfeited if the executive leaves the Group before the options vest.

ESOS was approved by shareholders at the May 1999 Annual General meeting. The scheme was amended in 2002 to reflect the preferences of certain institutional investors.

Grants under the ESOS are made annually and have values of up to one times annual salary.

ESOS options are subject to the following performance conditions:

(a) granted on or before 29 June 2001, on or before the tenth anniversary of the grant date:
   - earnings per share growth over a period of at least three consecutive years must equal or exceed the growth in the Retail Prices Index plus 3% per annum; and
   - earnings per share before exceptional items must equal or exceed twenty pence

(b) granted after 29 June 2001, on or before the sixth anniversary of the grant date:
   - earnings per share growth over a period of at least three consecutive years must equal or exceed the growth in the Retail Prices Index plus 3% per annum.

33 Share-based payments (continued)

Details of the share options outstanding during the year are as follows:

	2005		2004	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**4,702,914**	**111.8**	4,291,019	123.6
Granted during the year	**797,012**	**120.0**	1,381,591	83.0
(Forfeited) during the year	**(569,523)**	**138.3**	(969,696)	123.1
(Exercised) during the year	**(881,717)**	**99.0**	-	-
(Expired) during the year	-	-	-	-
Outstanding at the end of the year	**4,048,686**	**112.5**	4,702,914	111.8
Exercisable at the end of the year	**1,547,275**	**119.3**	796,600	127.2

The weighted average share price at the date of exercise for share options exercised during the year was 121.2p.

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.1 years (2004: 7.5 years) and have exercise prices ranging from 83p to 154p.

In 2005, options were granted on 29 June. The estimated fair value of the options granted on this date was 27.7p. The total fair value was £220,394.

In 2004, options were granted on 16 April and 20 September. The estimated fair value of the options granted on each of these respective dates were 19.1p and 19.8p respectively. The total fair value was £254,705.

The fair values were calculated using a Black-Scholes option pricing model. The inputs to the model were as follows:

	31 December 2005	1 January 2005
Weighted average share price	**120.0p**	83.0p
Weighted average exercise price	**120.0p**	83.0p
Expected volatility	**30.0%**	30.0%
Expected life	**4 years**	4 years
Risk free rate	**4.5%**	4.5%
Expected dividend yield	**3.0%**	3.0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the last six years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

33 Share-based payments (continued)

The Group recognised total expenses of £0.2 million (2004: £0.2 million) related to the above equity-settled share based payment transactions during the year.

Share Award Scheme for Chief Executive

The Company has a Share Award Scheme for the Chief Executive of the Group. This is a one-off award of shares in the Company. The shares vest three years after the date on which the shares were granted. The shares were issued for £nil consideration. The shares are forfeited if the Chief Executive leaves the Group before they vest. The exercise price is £nil.

Details of the share award outstanding during the year are as follows:

	2005		2004	
£ million	**Number of shares**	**Weighted average exercise price (p)**	Number of shares	Weighted average exercise price (p)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	**264,961**	**Nil**	-	-
Outstanding at the end of the year	**264,961**	**Nil**	-	-
Vested at the end of the year	-	-	-	-

The award outstanding at the end of the year has a remaining contractual life of 3.75 years.

The share award was granted on 4 January 2006, but backdated to 28 September 2005. The estimated fair value of the shares awarded was 109.5p. The total fair value is £290,000.

The fair value of these options was deemed to be the share price on the date of grant based on a discounted cash flow valuation of the future dividend stream, as dividends will be payable on these shares during the period between the granted date and the date of vesting.

The Group recognised an expense of £0.03 million (2004: £nil) related to the above equity-settled share-based payment transaction during the year.

34 Notes to the consolidated cash flow statement

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
Operating profit from continuing operations	**20.8**	15.1
Operating profit from discontinued operations	**26.4**	19.9
Operating profit from operations	**47.2**	35.0
Adjustments for:		
Depreciation of property, plant and equipment	**10.3**	10.5
Gain on disposal of property, plant and equipment	**(1.6)**	(1.5)
Decrease in provisions	**(11.1)**	(1.1)
Expense for share options	**0.2**	0.2
Operating cash flows before movements in working capital	**45.0**	43.1
Increase in inventories	**(4.2)**	(7.6)
(Increase) decrease in receivables	**(5.1)**	1.4
(Decrease) increase in payables	**(0.9)**	0.9
	(10.2)	(5.3)
Cash generated by operations before tax	**34.8**	37.8

Cash and cash equivalents in the consolidated cash flow statement are reconciled to the consolidated balance sheet as follows:

£ million	**At 31 December 2005**	At 1 January 2005
Cash	**174.3**	57.9
Bank overdrafts	**(1.7)**	(15.9)
Cash and cash equivalents per the consolidated cash flow statement	**172.6**	42.0

35 Commitments

£ million	**At 31 December 2005**	At 1 January 2005
Commitments for the acquisition of property, plant and equipment	**0.8**	2.8

Commitments are authorised and contracted for but not provided for.

36 Operating lease commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

£ million	At 31 December 2005	At 1 January 2005
Within one year	**2.5**	2.3
In the second to fifth years inclusive	**4.8**	3.8
After five years	**3.6**	3.4
Total annual commitments under operating leases	**10.9**	9.5

37 Contingent liabilities

£ million	At 31 December 2005	At 1 January 2005
Financial guarantees	**5.3**	2.7

It is not expected that any loss will arise in respect of these financial guarantees all of which were undertaken in the ordinary course of business.

European Commission investigation

During January 2001, the European Commission's competition directorate-general commenced an investigation into allegations of anti-competitive behaviour among certain manufacturers of copper plumbing fittings, including the Group's former plumbing fittings business. Notwithstanding the Group's subsequent disposal of that business, the Group retains some responsibility in relation to the outcome of the Commission's investigation. On 10 March 2004 the Group submitted a leniency application and has co-operated fully with the Commission. The Commission issued a statement of objections on 22 September 2005, and the Group provided a written response to such statement on 5 December 2005. Representatives of the Group and legal counsel, together with other parties subject to this investigation, attended a hearing convened by the European Commission in Brussels on 26-27 January 2006. The Group expects a decision by the Commission later in 2006. The investigation is expected to result in a fine. Legal counsel has advised that applicable regulations limit the maximum level of fines that could be imposed at 10% of the Group's total turnover in the business year preceding the imposition of the fine. The Commission is afforded considerable discretion in the determination of such fines, as well as in the reduction of fines imposed on parties, such as the Group, which seek leniency and co-operate with the Commission. At this stage in the investigation, and given the Commission's considerable discretion in determining the level of any fines, it is not possible to estimate reliably the level of fine that might be imposed upon the Group. Any decision by the Commission could be appealed to the European Courts, although an appeal would not automatically suspend payment of any fine. Consequently, no provision has been raised in respect of this matter except for legal expenses expected to be incurred in connection with the investigation.

37 Contingent liabilities (continued)

Other

In addition to the liabilities for which provisions have been made, the Group has contingent liabilities arising in the ordinary course of business and from businesses previously disposed, from which it is currently anticipated that the likelihood of any material unprovided liabilities arising is remote.

38 Accounting judgments and estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made various judgments that potentially have a significant effect on the amounts recognized in the financial statements. These judgments relate primarily to the following items:

European Commission investigation

As disclosed in note 37, it is not possible to estimate reliably the level of fine that might be imposed on the Group. Consequently, no provision has been raised in respect of this matter except for legal expenses incurred in connection with the investigation.

Provisions in respect of disposed entities

Provisions in respect of disposed entities relate to the current estimate of future liabilities expected to arise as a result of businesses disposed, where the Group has retained responsibility for items including product warranty, product liability and environmental remediation. At the end of each reporting period management performs a detailed assessment of expected future cash outflows relating to these obligations, and adjust remaining provisions accordingly. In reviewing these provisions consideration is given to the historical utilisation of such provisions, and the expected costs of works either ongoing currently or reasonably expected to be undertaken for which the Group would be liable.

Carrying amount of certain assets and goodwill

In reviewing the carrying value of certain assets and capitalised goodwill, estimates of future financial performance of the assets and businesses concerned are taken into account. The estimates inherently include assumptions of internal and external factors that, whilst considered reasonable at the date of these accounts, may change in the future from those levels currently expected.

39 Principal Group and associated companies at 31 December 2005 [iii]

Electrolytic manganese dioxide[ii]

South Africa Delta EMD Investments (Pty) Ltd (56.4%)	Holding company
South Africa Delta EMD (Pty) Ltd (56.4%)	Electrolytic manganese dioxide
Australia Delta EMD Australia Pty Ltd (56.4%)	Electrolytic manganese dioxide

Galvanizing

Australia Industrial Galvanizers Corporation Pty Ltd	Galvanizing services
Webforge Australia Pty Ltd	Galvanized steel products

Industrial supplies

Australia Donhad Pty Limited (60%)	Mining consumables

Manganese metal

South Africa Manganese Metal Co (Pty) Ltd (49%)[v]	Manganese metal

(i) The issued share capital of each of the companies is in the form of fully paid ordinary shares. The percentage of the equity held by the Group is 100%, unless otherwise stated.

(ii) Delta plc's interests in electrolytic manganese dioxide are held indirectly through Delta Electrical Industries Ltd which is listed on the Johannesburg Stock Exchange.

(iii) The list above comprises only the principal subsidiary and associated companies of the Group along with their country of incorporation and principal business.

(iv) All the above named companies are indirectly owned by Delta plc.

(v) Accounted for as an associate.

40 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and joint ventures are disclosed below:

	Sale of goods		Purchase of goods and services		Amounts owed to related parties		Amounts owed by related parties	
£ million	**31 December 2005**	1 January 2005	**31 December 2005**	1 January 2005	**31 December 2005**	1 January 2005	**31 December 2005**	1 January 2005
Associates and joint ventures	**-**	-	**(4.5)**	(3.8)	**(0.7)**	(0.4)	**1.5**	1.5

The remuneration of the directors is set out in the Directors' remuneration report.

41 Explanation of transition to IFRS

At 4 January 2004
Consolidated Balance Sheet

£ million	UK GAAP IFRS format	UK GAAP restatement[1]	UK GAAP IFRS format restated	Retirement obligations IAS 19[2]	Functional currency IAS 21[3]	Tax IAS 12[4]	Business combinations IFRS 3[5]	Dividends IAS 10[6]	Other[7]	IFRS
Goodwill	14.0	-	14.0	-	-	-	1.1	-	(0.1)	15.0
Property, plant and equipment	100.4	3.6	104.0	-	7.0	-	(1.1)	-	-	109.9
Interest in associates and joint ventures	18.8	0.5	19.3	-	-	-	-	-	-	19.3
Deferred tax assets	2.9	-	2.9	-	-	-	-	-	-	2.9
Other receivables	1.1	-	1.1	-	-	-	-	-	-	1.1
Non-current assets	**137.2**	**4.1**	**141.3**	-	**7.0**	-	-	-	**(0.1)**	**148.2**
Inventories	59.4	-	59.4	-	1.5	-	-	-	-	60.9
Trade and other receivables	59.2	-	59.2	-	-	-	-	-	-	59.2
Other financial assets	13.0	-	13.0	-	-	-	-	-	(8.2)	4.8
Cash	31.7	-	31.7	-	-	-	-	-	8.2	39.9
Current assets	**163.3**	-	**163.3**	-	**1.5**	-	-	-	-	**164.8**
Total assets	**300.5**	**4.1**	**304.6**	-	**8.5**	-	-	-	**(0.1)**	**313.0**
Borrowings	(23.5)	-	(23.5)	-	-	-	-	-	-	(23.5)
Trade and other payables	(59.9)	-	(59.9)	-	-	-	-	0.8	(0.4)	(59.5)
Current tax liabilities	(4.5)	-	(4.5)	-	-	-	-	-	-	(4.5)
Retirement benefit obligation	-	-	-	(41.0)	-	-	-	-	-	(41.0)
Provisions	(28.3)	-	(28.3)	-	-	-	-	-	-	(28.3)
Deferred tax liabilities	(1.3)	(1.1)	(2.4)	0.4	0.5	(3.3)	-	-	0.1	(4.7)
Total liabilities	**(117.5)**	**(1.1)**	**(118.6)**	**(40.6)**	**0.5**	**(3.3)**	-	**0.8**	**(0.3)**	**(161.5)**
Net assets	**183.0**	**3.0**	**186.0**	**(40.6)**	**9.0**	**(3.3)**	-	**0.8**	**(0.4)**	**151.5**

41 Explanation of transition to IFRS

At 4 January 2004 (continued)
Consolidated Balance Sheet (continued)

£ million	UK GAAP IFRS format	UK GAAP restatement[1]	UK GAAP IFRS format restated	Retirement obligations IAS 19[2]	Functional currency IAS 21[3]	Tax IAS 12[4]	Business combinations IFRS 3[5]	Dividends IAS 10[6]	Other[7]	IFRS
Share capital	40.7	-	40.7	-	-	-	-	-	-	40.7
Share premium account	32.5	-	32.5	-	-	-	-	-	-	32.5
Revaluation reserve	47.5	-	47.5	-	-	-	-	-	(47.5)	-
Retained earnings	28.0	2.0	30.0	(40.6)	5.1	(3.3)	-	0.8	47.2	39.2
Hedging and translation reserves	-	-	-	-	-	-	-	-	-	-
Employee share ownership trust	(1.0)	-	(1.0)	-	-	-	-	-	-	(1.0)
Equity attributable to equity holders of the parent	147.7	2.0	149.7	(40.6)	5.1	(3.3)	-	0.8	(0.3)	111.4
Minority interest	35.3	1.0	36.3	-	3.9	-	-	-	(0.1)	40.1
Total equity	**183.0**	**3.0**	**186.0**	**(40.6)**	**9.0**	**(3.3)**	**-**	**0.8**	**(0.4)**	**151.5**

Explanatory details can be found at the end of this note.

41 Explanation of transition to IFRS

At 1 January 2005
Consolidated Balance Sheet

£ million	UK GAAP IFRS format	UK GAAP restatement[1]	UK GAAP IFRS format restated	Retirement obligations IAS 19[2]	Functional currency IAS 21[3]	Tax IAS 12[4]	Business combinations IFRS 3[5]	Dividends IAS 10[6]	Other[7]	IFRS
Goodwill	14.3	-	14.3	-	-	-	1.3	-	(0.1)	15.5
Property, plant and equipment	90.8	4.6	95.4	-	10.0	-	-	-	-	105.4
Interest in associates and joint ventures	8.6	0.7	9.3	-	-	-	-	-	-	9.3
Deferred tax assets	3.2	-	3.2	-	-	-	-	-	-	3.2
Retirement benefit asset	-	-	-	0.7	-	-	-	-	-	0.7
Other receivables	0.7	-	0.7	-	-	-	-	-	-	0.7
Non-current assets	**117.6**	**5.3**	**122.9**	**0.7**	**10.0**	-	**1.3**	-	**(0.1)**	**134.8**
Inventories	66.3	-	66.3	-	1.5	-	-	-	-	67.8
Trade and other receivables	56.1	-	56.1	-	-	-	-	-	-	56.1
Other financial assets	23.7	-	23.7	-	-	-	-	-	(19.5)	4.2
Cash	38.4	-	38.4	-	-	-	-	-	19.5	57.9
Current assets	**184.5**	-	**184.5**	-	**1.5**	-	-	-	-	**186.0**
Total assets	**302.1**	**5.3**	**307.4**	**0.7**	**11.5**	-	**1.3**	-	**(0.1)**	**320.8**
Borrowings	(19.5)	-	(19.5)	-	-	-	-	-	-	(19.5)
Trade and other payables	(61.4)	-	(61.4)	-	-	-	-	3.7	(0.2)	(57.9)
Current tax liabilities	(5.5)	-	(5.5)	-	-	-	-	-	-	(5.5)
Retirement benefit obligation	-	-	-	(15.1)	-	-	-	-	-	(15.1)
Provisions	(24.0)	-	(24.0)	-	-	-	-	-	-	(24.0)
Deferred tax liabilities	(1.1)	(1.4)	(2.5)	(0.1)	0.9	(2.3)	-	-	0.3	(3.7)
Total liabilities	**(111.5)**	**(1.4)**	**(112.9)**	**(15.2)**	**0.9**	**(2.3)**	-	**3.7**	**0.1**	**(125.7)**
Net assets	**190.6**	**3.9**	**194.5**	**(14.5)**	**12.4**	**(2.3)**	**1.3**	**3.7**	-	**195.1**

41 Explanation of transition to IFRS

At 1 January 2005 (continued)
Consolidated Balance Sheet (continued)

£ million	UK GAAP IFRS format	UK GAAP restatement[1]	UK GAAP IFRS format restated	Retirement obligations IAS 19[2]	Functional currency IAS 21[3]	Tax IAS 12[4]	Business combinations IFRS 3[5]	Dividends IAS 10[6]	Other[7]	IFRS
Share capital	40.7	-	40.7	-	-	-	-	-	-	40.7
Share premium account	32.5	-	32.5	-	-	-	-	-	-	32.5
Revaluation reserve	26.2	-	26.2	-	8.0	-	-	-	(34.2)	-
Retained earnings	54.6	2.6	57.2	(14.5)	2.1	(2.3)	1.3	3.7	34.6	82.1
Hedging and translation reserves	-	-	-	-	(3.1)	-	-	-	(0.4)	(3.5)
Employee share ownership trust	(1.0)	-	(1.0)	-	-	-	-	-	-	(1.0)
Equity attributable to equity holders of the parent	153.0	2.6	155.6	(14.5)	7.0	(2.3)	1.3	3.7	-	150.8
Minority interest	37.6	1.3	38.9	-	5.4	-	-	-	-	44.3
Total equity	**190.6**	**3.9**	**194.5**	**(14.5)**	**12.4**	**(2.3)**	**1.3**	**3.7**	-	**195.1**

Explanatory details can be found at the end of this note.

41 Explanation of transition to IFRS

Year ended 1 January 2005
Consolidated Income Statement

£ million	UK GAAP IFRS format	UK GAAP restatement[1]	UK GAAP IFRS format restated	Retirement obligations IAS 19[2]	Functional currency IAS 21[3]	Disposal groups IFRS 5[8]	Associates IAS 28[9]	Business combinations IFRS 3[5]	Other[7]	IFRS
Revenue	314.5	-	314.5	-	(0.4)	(113.5)	-	-	-	200.6
Cost of sales	(224.7)	0.7	(224.0)	-	(2.0)	76.3	-	-	-	(149.7)
Gross profit	**89.8**	**0.7**	**90.5**	-	**(2.4)**	**(37.2)**	-	-	-	**50.9**
Distribution costs and administrative expenses	(57.0)	-	(57.0)	0.3	(0.3)	19.9	-	1.3	(0.3)	(36.1)
Profit on sale of fixed assets	0.4	-	0.4	-	-	(0.1)	-	-	-	0.3
Operating profit	**33.2**	**0.7**	**33.9**	**0.3**	**(2.7)**	**(17.4)**	-	**1.3**	**(0.3)**	**15.1**
Share of post-tax (losses) of associates and joint ventures	(1.2)	0.2	(1.0)	-	-	-	(1.3)	-	-	(2.3)
Net finance costs	(2.7)	-	(2.7)	(1.0)	2.8	(0.1)	1.1	-	-	0.1
Profit before tax	**29.3**	**0.9**	**30.2**	**(0.7)**	**0.1**	**(17.5)**	**(0.2)**	**1.3**	**(0.3)**	**12.9**
Tax	(9.1)	(0.2)	(9.3)	(0.3)	0.5	5.5	0.2	-	0.5	(2.9)
Profit for the year from continuing operations	**20.2**	**0.7**	**20.9**	**(1.0)**	**0.6**	**(12.0)**	-	**1.3**	**0.2**	**10.0**
Profit for the year from discontinued operations	0.8	-	0.8	-	-	12.0	-	-	1.2	14.0
Profit for the year	**21.0**	**0.7**	**21.7**	**(1.0)**	**0.6**	-	-	**1.3**	**1.4**	**24.0**

41 Explanation of transition to IFRS (continued)

1. A detailed review of the economic useful lives applicable to property, plant and equipment was performed. The review resulted in some significant changes to the useful economic lives of certain assets in the Group's South African operations. The Group believes these changes should have been identified in earlier years and accordingly has processed these changes as a prior year adjustment to its UK GAAP financial information. The adjustment also includes the reversal of a closure cost provision for which there is no legal or constructive obligation.

2. In accordance with IAS 19 the Group is bringing to account the financial effects of its defined benefit pension schemes, as described more fully in note 22. The Group has not adopted the "corridor" approach to accounting for actuarial gains/losses. Since these reconciliations were first published the Group has completed a review of IAS 19 "Employee benefits" and has adjusted previous disclosures accordingly.

3. Adjustment relating to the adoption of the Australian dollar and South African rand as the functional currencies of the EMD businesses. Under previous UK GAAP, the functional currency had been determined to be the United States dollar.

4. Adjustment relating to the provision for deferred tax on unremitted earnings from MMC and Cobra Investments (Pty) Limited ("Cobra"). Cobra was disposed of during 2004.

5. All goodwill amortisation has ceased with effect from the transition date. Hindsight reviews of fair value adjustments relating to the Webforge acquisition were undertaken in 2004. That review highlighted some minor adjustments to be made which have been reflected through the transition balance sheet.

6. In accordance with IAS 10, the Group only brings dividends to account following declaration by the directors and, where appropriate, approval by shareholders.

7. 'Other' includes cash and cash equivalents reclassified from other financial assets in accordance with IAS 7; lease accounting adjustments in accordance with IAS 17; the reallocation of other reserve amounts to the profit and loss account in accordance with the transitional arrangements pursuant to IFRS 1; share based payment expense in accordance with IFRS 2; and the write back to tax expense in 2004 of a provision for unremitted earnings pertaining to the Group's interest in Cobra, which was disposed in 2004, and the write back to profit for the year from discontinued operations in the year ended 1 January 2005 of cumulative foreign exchange differences relating to Cobra.

8. In accordance with IFRS 5, the results of discontinued operations have been reclassified within the consolidated income statement to the profit for the year from discontinued operations.

9. In accordance with IAS 28, the results of the Group's interests in associates and joint ventures have been reclassified within the income statement to the share of post-tax profits/(losses) of associates and joint ventures.

Independent auditors' report to the members of Delta plc

We have audited the individual company financial statements of Delta plc for the year ended 31 December 2005 which comprise the balance sheet and the related notes 1 to 18. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the group annual report of Delta plc for the year ended 31 December 2005. We have reported separately on the consolidated financial statements of Delta plc for the year ended 31 December 2005, and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the individual company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors' report is not consistent with the individual company financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements.

Independent auditors' report to the members of Delta plc

Basis of audit opinion (continued)

It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter - uncertainty relating to the amount of a potential liability for alleged anti-competitive behaviour

Without qualifying our opinion, we draw attention to the disclosures made in note 14 to the individual company financial statements concerning the European Commission competition directorate's investigation into alleged anti-competitive behaviour in the group's former plumbing fittings business. Legal counsel has advised that applicable regulations limit the maximum level of fines that could be imposed to 10% of the Group's total turnover in the business year preceding the imposition of the fine. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the individual Company financial statements. This matter has been adequately disclosed as a contingent liability.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
26 March 2006

Individual Company Balance Sheet

£ million	Notes	At 31 December 2005	At 1 January 2005 (restated)
Fixed assets			
Investments in Group companies	2	**205.3**	148.7
		205.3	148.7
Current assets			
Debtors - amounts falling due after one year	3	**-**	0.3
Debtors - amounts falling due within one year	3	**3.2**	0.5
Investments - money market funds		**24.3**	19.4
Cash at bank and in hand		**0.1**	10.5
		27.6	30.7
Creditors - amounts falling due within one year			
Borrowings	4	**(7.3)**	(16.7)
Other creditors	5	**(4.0)**	(5.9)
		(11.3)	(22.6)
Net current assets		**16.3**	8.1
Total assets less current liabilities		**221.6**	156.8
Provisions for liabilities and charges	7	**-**	(0.1)
Net assets excluding pension deficit		**221.6**	156.7
Pension deficit	12	**(3.0)**	(14.2)
Net assets including pension deficit		**218.6**	142.5
Capital and reserves			
Called up share capital	8	**41.0**	40.7
Share premium account	8,9	**33.2**	32.5
Revaluation reserve	9	**69.9**	18.3
Profit and loss account	9	**75.5**	52.0
Employee share ownership trust	8,9	**(1.0)**	(1.0)
Total shareholders' funds	11	**218.6**	142.5

The Company balance sheet and related notes on pages 121 to 138 were approved by the Board of directors on 26 March 2006 and signed on its behalf by:

Todd Atkinson
Chief Executive

Steven Marshall
Chairman

Notes to the Individual Company Financial Statements

1 Principal accounting policies for the Company

The separate financial statements of the Company are presented as required by the Companies Act 1985, as amended. As permitted by that Act, the individual company financial statements have been prepared in accordance with UK Financial Reporting Standards.

The financial statements are prepared in accordance with the historical cost accounting convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable Accounting Standards and law in the United Kingdom (UK GAAP).

The principal accounting policies for the Company are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of FRS 17 – Retirement Benefits (as amended), FRS 20 - Share Based Payment, FRS 21 - Events after the Balance Sheet Date, FRS 23 - The Effects of Changes in Foreign Exchange Rates, FRS 25 - Financial Instruments: Disclosure and Presentation, and FRS 26 - Financial Instruments: Measurement which have been adopted for the first time this year. The comparative period has been restated where applicable in respect of each of these standards.

As permitted by Section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. The Company reported a profit for the year ended 31 December 2005 of £16.8 million (2004: loss of £8.9 million).

Amounts payable to Deloitte & Touche LLP by the Company for its audit amounted to £0.1 million (2004: £0.1 million).

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised) - Cash Flow Statements. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Delta plc Group.

Investment in subsidiary undertakings

The Company accounts for its investments in subsidiary undertakings by the equity method, whereby the original cost of the investments is adjusted for the movement in underlying net assets applicable to the investments since their date of acquisition with an adjustment to the Company's revaluation reserve, except where any diminution in the value of the investment is considered permanent. In such cases the permanent diminution is recorded as a reduction in the Company's profit and loss account.

Foreign currency

Transactions in overseas currencies are translated into sterling at the exchange rate ruling at the date of the transaction or, where forward foreign exchange contracts have been taken out, at the contractual rates.

Non-monetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at the closing rate.

Notes to the Individual Company Financial Statements

1 Principal accounting policies for the Company (continued)

Foreign currency (continued)

In accordance with the transitional provisions of FRS 25, derivative financial instruments have been accounted for and presented on a UK GAAP basis for the year ended 1 January 2005. In accordance with UK GAAP in effect at that time, gains and losses on forward foreign exchange contracts have been recognised in the profit and loss account when realised. Compliance with FRS 25 and FRS 26 would require recognition of the fair value of foreign exchange contracts on the balance sheet as at 31 December 2005.

Pensions

The Company operates a defined benefit pension plan.

A defined benefit pension plan is one that specifies the amount of pension benefit that an employee will receive on retirement. The Company operates a funded defined benefit pension plan, where actuarially-determined payments are made to a trustee-administered fund.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Company accounts for actuarial gains and losses in full through the statement of total recognised gains and losses in the year in which they occur.

The current service cost and gains and losses on settlements and curtailments are included in the Company profit and loss account.

Past service costs, if any, are similarly included where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period.

The expected return on assets of the funded defined benefit pension plan and the expected interest on pension plan liabilities are recorded in the Company profit and loss account.

Further details of the Company's defined benefit pension plan are given in note 12.

Provisions

Provisions are recognised when a present obligation (legal or constructive) exists in respect of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and where the amount can be reliably estimated.

Notes to the Individual Company Financial Statements

1 Principal accounting policies for the Company (continued)

Leases

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Company. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the liability and finance charge to produce a constant rate of interest on the finance lease balance outstanding. Assets capitalised under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases other than finance leases are classified as operating leases. Payments made under operating leases are recognised as an expense in the profit and loss account on a straight-line basis over the lease term. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Tax

The profit and loss account tax charge is calculated at current rates of corporation tax on the taxable profits for the year. Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax is not provided on un-remitted earnings where there is no binding commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Borrowing costs

Borrowing costs are recognised in the Company profit and loss account in the period in which they are incurred.

Financial instruments (FRS 13 accounting policies applicable until 1 January 2005)

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates. The derivative financial instruments used are foreign exchange swaps and forward foreign exchange contracts.

Notes to the Individual Company Financial Statements

1 Principal accounting policies for the Company (continued)

Financial instruments (FRS 26 accounting policies applicable from 2 January 2005)

For the year ended 31 December 2005 derivative financial instruments have been accounted for and presented under FRS 26 (revised) - Financial Instruments – Disclosure and Presentation. The main impact of this change in accounting policy is that derivative financial instruments are measured at fair value on the balance sheet with changes charged to the profit and loss account. Derivative financial instruments utilised by the Company principally comprise forward foreign exchange contracts.

Gains or losses arising from changes in fair value of derivative financial instruments are recognised in the profit and loss account. The Company does not hold derivatives for trading or speculative purposes.

Dividends

Dividends declared after the year end represent a non-adjusting balance sheet event and therefore no liability is recognised until the dividend is declared.

Share capital

Ordinary shares and preference shares are classified as equity instruments, and are recorded at the proceeds received, net of direct issue costs.

Investments in own shares (held through an Employee Share Ownership Trust) are shown at cost as a deduction from shareholders' funds. The costs of administration of the Employee Share Ownership Trust are included in the Company profit and loss account as they accrue. Dividends on shares held by the Trust have been waived.

Share-based payments

The Company operates various equity-settled incentive schemes for certain employees. For equity-settled share options, the services received from employees are measured by reference to the fair value of the share options granted in accordance with FRS 20. Fair value is calculated at grant date and recognised in the profit and loss account, together with a corresponding increase in shareholders' equity, on a straight-line basis over the vesting period, based on an estimate of the number of options that will eventually vest. Vesting conditions, other than market conditions, are not taken into account when estimating fair value.

Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Further information is given in the Directors' remuneration report and in note 15.

Notes to the Individual Company Financial Statements

2 Investments in Group companies

£ million	Book value			Amounts provided				
	At 1 January 2005	**Move-ments during year**	**At 31 December 2005**	**At 1 January 2005**	**Move-ments during year**	**At 31 December 2005**	**Net book value at 31 December 2005**	Net book value at 1 January 2005
Shares	796.0	51.6	**847.6**	(209.4)	-	**(209.4)**	**638.2**	586.6
Net loans	(420.8)	5.0	**(415.8)**	(17.1)	-	**(17.1)**	**(432.9)**	(437.9)
	375.2	56.6	**431.8**	(226.5)	-	**(226.5)**	**205.3**	148.7

(i) The net book value of shares is equivalent to the Company's share of the issued share capital and reserves of the subsidiary companies.

(ii) The cost of shares in subsidiary companies is £779.1 million (2004: £779.1 million).

(iii) The names of the principal Group companies are given on pages 2 and 3 and note 39 to the consolidated financial statements.

3 Debtors

£ million	**At 31 December 2005**	At 1 January 2005
Amounts falling due within one year:		
Amounts owed by Group companies	**2.7**	-
Other debtors	**0.2**	0.3
Prepayments and accrued income	**0.3**	0.2
	3.2	0.5
Amounts falling due after one year:		
Other debtors	-	0.3

4 Borrowings

Borrowings of £7.3 million (2004: £16.7 million) consist of unsecured bank loans and overdrafts due within one year.

5 Other creditors

£ million	**At 31 December 2005**	At 1 January 2005 (restated)
Amounts falling due within one year:		
Trade creditors	-	0.1
Amounts owed to Group companies	-	4.1
Other taxation and social security	**0.1**	0.1
Other creditors	**2.7**	0.2
Accruals and deferred income	**1.2**	1.4
	4.0	5.9

Notes to the Individual Company Financial Statements

6 Operating lease commitments

At the balance sheet date, the Company has annual commitments under operating leases expiring:

£ million	At 31 December 2005	At 1 January 2005
Within one year	0.1	0.2
In the second to fifth years inclusive	-	0.2
After five years	-	-
	0.1	0.4

Company annual lease commitments are in respect of land and buildings.

7 Provisions

The balance of £0.1 million at 1 January 2005 related to restructuring costs. This amount was utilised during the year.

8 Share capital, share premium and Employee Share Ownership Trust

£ million	At 31 December 2005	At 1 January 2005
Ordinary shares	**38.2**	37.9
Preference shares	**2.8**	2.8
	41.0	40.7

Ordinary shares

	Share capital		Share premium	
£ million	At 31 December 2005	At 1 January 2005	At 31 December 2005	At 1 January 2005
Authorised:				
188 million ordinary shares of 25p each	**47.0**	47.0	-	-
Issued and fully paid:				
At the beginning of the year	**37.9**	37.9	**32.5**	32.5
Exercise of share options	**0.3**	-	**0.7**	-
At the end of the year	**38.2**	37.9	**33.2**	32.5

The Company has one class of ordinary shares.

The total number of authorised ordinary shares was 188,000,000 (2004: 188,000,000) and 152,724,509 shares were allotted and fully paid at 31 December 2005 (2004: 151,697,846).

Notes to the Individual Company Financial Statements

8 Share capital, share premium and Employee Share Ownership Trust (continued)

During the year, the Company issued a total of 1,026,663 ordinary shares pursuant to (i) the Delta Executive Share Option Scheme (881,717 shares), and (ii) Save As You Earn and International Save As You Earn share option schemes (144,946 shares) for a total consideration of £1.0 million (2004: £nil). This resulted in an increase of £0.3 million to share capital and £0.7 million to the share premium account. The 144,946 ordinary shares of 25p each under the Save As You Earn share option scheme at 72p, 82p and 108p and the International Save As You Earn share option scheme at 82p had an aggregate nominal value of £36,000 and consideration received of £0.1 million.

Preference shares

	6% Cumulative first preference shares		4.5% Cumulative second preference shares	
£ million	**At 31 December 2005**	At 1 January 2005	**At 31 December 2005**	At 1 January 2005
Authorised:				
1 million ordinary shares of £1 each / 2 million ordinary shares of £1 each	**1.0**	1.0	**2.0**	2.0
Issued and fully paid:				
At the beginning of the year	**0.9**	0.9	**1.9**	1.9
At the end of the year	**0.9**	0.9	**1.9**	1.9

The total number of authorised cumulative first preference shares was 1,000,000 (2004: 1,000,000) and 866,152 shares allotted and fully paid at 31 December 2005 (2004: 866,152). The total number of authorised cumulative second preference shares was 2,000,000 (2004: 2,000,000) and 1,940,000 shares allotted and fully paid at 31 December 2005 (2004: 1,940,000).

The equity preference shares are not redeemable.

Employee Share Ownership Trust

Shares in the Employee Share Ownership Trust (ESOT) are valued at their original cost and deducted from equity. At 31 December 2005, the 514,609 shares (2004: 514,609 shares) held by the ESOT had a market value of £0.6 million (2004: £0.5 million). Dividend income payable to the ESOT has been waived. Further details of the operation of the long term incentive plan are given in the Directors' remuneration report.

Notes to the Individual Company Financial Statements

9 Reserves

£ million	Share premium account	Revaluation reserve	Profit and loss account	Employee Share Ownership Trust	**Total**
At 2 January 2005 as previously stated	32.5	18.3	62.5	(1.0)	**112.3**
Prior year adjustment (see note 10)	-	-	(10.5)	-	**(10.5)**
At 2 January 2005 as restated	**32.5**	**18.3**	**52.0**	**(1.0)**	**101.8**
Issue of shares	0.7	-	-	-	**0.7**
Revaluation surplus on investments	-	51.6	-	-	**51.6**
Profit for the year	-	-	16.8	-	**16.8**
Equity impact of share based payments	-	-	0.2	-	**0.2**
Dividends	-	-	(5.3)	-	**(5.3)**
Actuarial gain on defined pension plan	-	-	11.8	-	**11.8**
At 31 December 2005	**33.2**	**69.9**	**75.5**	**(1.0)**	**177.6**

The profit and loss account reserve before the deduction of the pension deficit was £78.5 million (2004 (restated): £66.2 million).

10 Prior year adjustments

During the year, a number of UK accounting standards have come into force to effect a change in accounting policy under UK GAAP and, in the case of FRS 17 - Retirement Benefits, its transitional provisions have now given way to full implementation in accordance with the timescale prescribed in that standard. Accordingly, to present these individual Company financial statements for these changes in accounting policies, the comparative figures for the balance sheet have been restated. A summary of the effect on the profit and loss account, together with the effect on the balance sheet and statement of total recognised gains and losses, are described below.

With the adoption of FRS 17 - Retirement benefits, a net pension deficit has been brought onto the balance sheet in respect of the Company's UK defined benefit pension plan. The current service cost and interest expense in respect of pension liabilities in the plan are recognised in the profit and loss account. The expected return on pension plan assets is also recorded in the profit and loss account. The Company accounts for actuarial gains and losses in full through the statement of recognised gains and losses. Further details are given in note 12.

The adoption of FRS 20 - Share-based payments has led to the fair valuing of share-based payments granted and this expense being recognised in the profit and loss account. Other than a utilisation of an existing provision in 2004, there is no impact on net assets in respect of FRS 20: Share-based payments because the share option expense in the profit and loss account is offset by a corresponding credit entry in the profit and loss account reserve. Further details are given in note 15.

Notes to the Individual Company Financial Statements

10 Prior year adjustments (continued)

The main effect arising from the adoption of FRS 21 - Events after the balance sheet date has been to not accrue for dividends until they are paid to or approved by shareholders. This has a consequent effect on reported profit for the year as dividends are now shown as movements in equity.

Profit and loss account – impact of prior year adjustments

£ million	Year ended 1 January 2005
Loss for the financial year before prior year adjustments	(7.5)
FRS 17: Retirement benefits: current service cost and net interest expense	(1.7)
FRS 17: Reversal of SSAP 24 expense	0.5
FRS 20: Share-based payments: share option expense	(0.2)
Loss for the financial year after prior year adjustments	(8.9)

Opening balance sheets – impact of prior year adjustments

£ million	At 1 January 2005
Net assets of opening balance sheet before prior year adjustments	153.0
FRS 17: Retirement benefits: net pension deficit	(14.2)
FRS 20: Share-based payments: profit and loss account reserve	-
FRS 21: Events after the balance sheet date: creditors: dividends	3.7
Total prior year adjustment	(10.5)
Net assets of opening balance sheet after prior year adjustments	142.5

Included in the statement of total recognised gains and losses for the year ended 1 January 2005 is an actuarial gain of £25.8 million in respect of FRS 17: Retirement Benefits.

£ million	At 2 January 2004
Net assets of opening balance sheet before prior year adjustments	147.7
FRS 17: Retirement benefits: net pension deficit	(38.8)
FRS 20: Share-based payments: profit and loss account reserve	-
FRS 21: Events after the balance sheet date: creditors: dividends	0.8
Total prior year adjustment	(38.0)
Net assets of opening balance sheet after prior year adjustments	109.7

There is no impact on the prior year results of the adoption of FRS 23, FRS 25 and FRS 26.

Notes to the Individual Company Financial Statements

11 Reconciliation of movements in Company shareholders' funds

£ million	At 31 December 2005	At 1 January 2005 (Restated)
Restated profit/(loss) for the year	**16.8**	(8.9)
Equity impact of share based-payments	**0.2**	0.2
Dividends paid	**(5.3)**	(1.8)
Surplus arising on revaluation of investment in Group companies	**51.6**	17.5
Actuarial gain	**11.8**	25.8
	75.1	32.8
New shares issued	**1.0**	-
Net addition to shareholders funds	**76.1**	32.8
Opening shareholders funds as previously stated	**153.0**	147.7
Prior year adjustments	**(10.5)**	(38.0)
Opening shareholders funds as restated	**142.5**	109.7
Closing shareholders funds including pension deficit	**218.6**	142.5
Closing shareholders funds excluding pension deficit	**221.6**	156.7

12 Pensions

The Company operates a defined benefit pension scheme for qualifying employees in the United Kingdom, being the Delta Pension Plan (DPP). Additional information regarding DPP is contained in the consolidated financial statements of Delta plc.

The most recent actuarial valuation of DPP's assets and liabilities for financial reporting purposes was performed at 31 December 2005 by Entegria Limited, DPP's independent actuary. The projected unit credit method was used for valuation purposes. That actuarial valuation used the following principal assumptions:

	2005	2004	2003
Discount rate	**4.8%**	5.3%	5.4%
Expected return on equity instruments	**7.0%**	7.0%	7.0%
Expected return on debt instruments	**4.1%**	4.5%	4.9%
Expected return on property and cash	**5.2%**	5.5%	5.3%
Expected rate of salary increases	**3.8%**	3.8%	3.8%
Rate of increase in pension payments	**3.0%**	3.0%	3.0%
Inflation assumption	**2.8%**	2.8%	2.8%

Notes to the Individual Company Financial Statements

12 Pensions (continued)

The fair value of DPP's assets and liabilities at each balance sheet date were:

£ million	2005	2004	2003
Equity instruments	**202.6**	183.6	178.6
Debt instruments	**413.6**	377.0	340.9
Property and cash	**47.8**	46.0	62.5
Total fair value of assets	**664.0**	606.6	582.0
Fair value of scheme liabilities	**(667.0)**	(620.8)	(620.8)
Retirement benefit obligation	**(3.0)**	(14.2)	(38.8)

Amounts charged to operating profit were:

£ million	2005	2004
Current service cost	**0.4**	0.5

Amounts charged (credited) to net interest were:

£ million	2005	2004
Expected return on pension scheme assets	**(31.4)**	(31.5)
Expected interest on pension scheme liabilities	**32.0**	32.7
	0.6	1.2

Analysis of the actuarial gain recognised in the statement of total recognised gains and losses:

£ million	2005	2004
Actual return less expected return on pension scheme assets	**59.2**	25.3
Experience gains arising on the scheme liabilities	**0.1**	6.2
Changes in assumptions underlying the present value of the scheme liabilities	**(47.5)**	(5.7)
	11.8	25.8

Movement in pension deficit during the year:

£ million	2005	2004
Deficit at the start of the year	**(14.2)**	(38.8)
Movement in the year:		
Current service cost	**(0.4)**	(0.5)
Contributions	**0.4**	0.5
Other finance charge	**(0.6)**	(1.2)
Actuarial gain	**11.8**	25.8
Deficit in scheme at the end of the year	**(3.0)**	(14.2)

Notes to the Individual Company Financial Statements

12 Pensions (continued)

History of experience gains and losses

	2005	2004	2003	2002	2001[1]
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**59.2**	25.4	20.0	(68.5)	-
Percentage of scheme assets	**8.9%**	4.2%	3.5%	11.4%	
Experience gains/(losses) on scheme Liabilities:					
Amount (£m)	**0.1**	6.2	(13.2)	1.0	-
Percentage of the present value of scheme liabilities	**-**	1.0%	(2.1%)	0.1%	-
Total actuarial gains recognised:					
Amount (£m)	**11.8**	25.8	81.5	(153.9)	-
Percentage of the present value of scheme liabilities	**(1.8%)**	(4.2%)	(13.1%)	21.5%	-

[1] 2001 data not available.

The Group continues to make pension contributions to the Delta Pension Plan for current participants. At 30 November 2005 there were 19,184 members in total, comprising 10,656 pensioners (including any dependants' pensions in payment), 8,448 deferred participants and 80 current participants.

At the year end, approximately two-thirds of the total participants were male and one-third of the participants were female. The approximate average ages of pensioners (including any dependants being paid), deferred participants and current participants at the year end were 71, 49 and 45 respectively.

The most recent triennial actuarial valuation was completed as at 5 April 2003, which assumed that the mortality experience of the plan members would be in accordance with the AM80/AF80 and PMA80C10/PFA80C10 mortality tables. This was consistent with the results of an investigation into the mortality experience of the scheme. The following assumptions were also employed: pre-retirement investment return: 6.5%; post-retirement investment return: 5.3%; annual increase in pensionable earnings: 3.5%; annual pension increases: from 2.5% to 3.0%; and price inflation: 2.8%. The next valuation of the Delta Pension Plan is to be carried out with an effective date of 5 April 2006.

Notes to the Individual Company Financial Statements

13 Dividends

£ million	Year ended 31 December 2005	Year ended 1 January 2005
Preference:		
6.0% cumulative first preference shares and 4.5% cumulative second preference shares	**0.1**	0.1
Ordinary:		
Final dividend of 2.4 pence per share for the year ended 1 January 2005 (2003: 0.5 pence per share) paid in year	**3.7**	0.8
Interim of 1.0 pence per share (2004: 0.6 pence per share)	**1.5**	0.9
Proposed final dividend of 2.5 pence per share for the year ended 31 December 2005 (2004: 2.4 pence per share)	**3.8**	3.7

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these individual Company financial statements.

14 Contingent liabilities

£ million	At 31 December 2005	At 1 January 2005
Financial guarantees	**1.5**	1.5

It is not expected that any loss will arise in respect of these financial guarantees.

VAT

The Company is registered under a group registration for value added tax and is jointly liable for the amount payable of £nil million at 31 December 2005 (2004: £0.1 million) in respect of certain UK Group companies.

European Commission investigation

During January 2001, the European Commission's competition directorate-general commenced an investigation into allegations of anti-competitive behaviour among certain manufacturers of copper plumbing fittings, including the Group's former plumbing fittings business. Notwithstanding the Group's subsequent disposal of that business, the Group retains some responsibility in relation to the outcome of the Commission's investigation. On 10 March 2004 the Group submitted a leniency application and has co-operated fully with the Commission. The Commission issued a statement of objections on 22 September 2005, and the Group provided a written response to such statement on 5 December 2005. Representatives of the Group and legal counsel, together with other parties subject to this investigation, attended a hearing convened by the European Commission in Brussels on 26-27 January 2006. The Group expects a decision by the Commission later in 2006.

Notes to the Individual Company Financial Statements

14 Contingent liabilities (continued)

The investigation is expected to result in a fine. Legal counsel has advised that applicable regulations limit the maximum level of fines that could be imposed at 10% of the Group's total turnover in the business year preceding the imposition of the fine. The Commission is afforded considerable discretion in the determination of such fines, as well as in the reduction of fines imposed on parties, such as the Group, which seek leniency and co-operate with the Commission. At this stage in the investigation, and given the Commission's considerable discretion in determining the level of any fines, it is not possible to estimate reliably the level of fine that might be imposed upon the Group. Any decision by the Commission could be appealed to the European Courts, although an appeal would not automatically suspend payment of any fine. Consequently, no provision has been raised in respect of this matter except for legal expenses expected to be incurred in connection with the investigation, which are provided in a subsidiary company.

Other

The Company has contingent liabilities arising in the ordinary course of business and from businesses previously disposed, from which it is currently anticipated that the likelihood of any material liabilities arising is remote.

15 Share-based payments

FRS 20 Share Based Payments has only been applied to equity instruments that were granted after 7 November 2002 and that had not vested before 1 January 2005.

Included within staff costs are expenses related to share-based payments totalling £0.2 million (2004: £0.2 million).

Save as you Earn schemes

The Company has a share option scheme for all employees of the Group. This is known as "Save As You Earn" (SAYE) and its international equivalent is known as "International Save As You Earn" (ISAYE). Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. In normal circumstances the options mature either 36, 60 or 84 months following grant and can be exercised within six months of the relevant maturity date. Options are forfeited if the employee leaves the Group before the option vests. There have been no SAYE grants since October 2002 and therefore this share-based payment scheme does not fall under FRS 20.

Notes to the Individual Company Financial Statements

15 Share-based payments (continued)

Executive share option scheme (ESOS)

The Company has a share option scheme for executives of the Group. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The options are exercisable between three and ten years after the date on which the options were granted subject to performance criteria being met. Options are forfeited if the executive leaves the Group before the options vest.

ESOS was approved by shareholders at the May 1999 Annual General Meeting. The scheme was amended in 2002 to reflect the preferences of certain institutional investors.

Grants under the ESOS are made annually and have values of up to one times annual salary.

ESOS options are subject to the following performance conditions:

(a) granted on or before 29 June 2001, on or before the tenth anniversary of the grant date:
- earnings per share growth over a period of at least three consecutive years must equal or exceed the growth in the Retail Prices Index plus 3% per annum; and
- earnings per share before exceptional items must equal or exceed twenty pence.

(b) granted after 29 June 2001, on or before the sixth anniversary of the grant date:
- earnings per share growth over a period of at least three consecutive years must equal or exceed the growth in the Retail Prices Index plus 3% per annum.

Details of the share options outstanding during the year are as follows:

	2005		2004	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Outstanding at the beginning of the year	**4,702,914**	**111.8**	4,291,019	123.6
Granted during the year	**797,012**	**120.0**	1,381,591	83.0
(Forfeited) during the year	**(569,523)**	**138.3**	(969,696)	123.1
(Exercised) during the year	**(881,717)**	**99.0**	-	-
(Expired) during the year	-	-	-	-
Outstanding at the end of the year	**4,048,686**	**112.5**	4,702,914	111.8
Exercisable at the end of the year	**1,547,275**	**119.3**	796,600	127.2

Notes to the Individual Company Financial Statements

15 Share-based payments (continued)

The weighted average share price at the date of exercise for share options exercised during the year was 121.2p.

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.1 years (2004: 7.5 years) and have exercise prices ranging from 83p to 154p.

In 2005, options were granted on 29 June. The estimated fair value of the options granted on this date was 27.7p. The total fair value was £220,394.

In 2004, options were granted on 16 April and 20 September. The estimated fair value of the options granted on each of these respective dates were 19.1p and 19.8p respectively. The total fair value was £254,705.

The fair values were calculated using a Black-Scholes option pricing model. The inputs to the model were as follows:

	31 December 2005	1 January 2005
Weighted average share price	**120.0p**	83.0p
Weighted average exercise price	**120.0p**	83.0p
Expected volatility	**30.0%**	30.0%
Expected life	**4 years**	4 years
Risk free rate	**4.5%**	4.5%
Expected dividend yield	**3.0%**	3.0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the last six years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company recognised total expenses of £0.2 million (2004: £0.2 million) related to the above equity-settled share based payment transactions during the year.

Share Award Scheme for Chief Executive

The Company has a Share Award Scheme for the Chief Executive of the Group. This is a one-off award of shares in the Company. The shares vest three years after the date on which the shares were granted. The shares were issued for £nil consideration. The shares are forfeited if the Chief Executive leaves the Group before they vest. The exercise price is £nil.

Details of the share award outstanding during the year are as follows:

15 Share-based payments (continued)

£ million	2005 Number of shares	2005 Weighted average exercise price (p)	2004 Number of shares	2004 Weighted average exercise price (p)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	264,961	Nil	-	-
Outstanding at the end of the year	264,961	Nil	-	-
Vested at the end of the year	-	-	-	-

The award outstanding at the end of the year has a remaining contractual life of 3.75 years.

The share award was granted on 4 January 2006, but backdated to 29 September 2005. The estimated fair value of the shares awarded was 109.5p. The total fair value is £290,000.

The fair value of these options was deemed to be the share price on the date of grant based on a discounted cash flow valuation of the dividend stream, as dividends will be payable on these shares during the period between the granted date and the date of vesting.

The Group recognised an expense of £0.03 million (2004: £nil) related to the above equity-settled share-based payment transaction during the year.

16 Financial instruments

	FRS 26 - 2005 Book Value £ million	FRS 26 - 2005 Fair Value £ million	FRS 13 - 2004 Book Value £ million	FRS 13 - 2004 Fair Value £ million
Foreign exchange contracts (current)	-	(2.7)	-	-

At the balance sheet date, the total notional amount of outstanding foreign exchange contracts that the Company has committed was £51.9 million (2004: £4.3 million).

Currency derivatives

The Company utilises currency derivatives to manage its exposure to fluctuations in foreign exchange rates. The derivative instruments used are foreign exchange swaps and forward foreign exchange contracts. The Company and Group do not trade in financial instruments, so there are no derivatives held for trading purposes.

16 Financial instruments (continued)

Intra-group loan economic hedging

The Company has taken out financial instruments to manage its exposure to foreign exchange movements on loans granted by (or payable to) Delta plc and other Delta Group companies, where the loan is not in Delta plc's functional currency (pound sterling). The financial instruments used are forward foreign exchange contracts. The fair value of these contracts at the balance sheet date are set out in the table above and are accounted for in the profit and loss account.

The following methodology has been used to establish estimated fair values:

Item	**Method**
Cash at bank, short term borrowings	The fair value of these items approximates to the carrying amount.
Foreign exchange deals	Fair value is calculated by marking each contract to market at appropriate spot or forward exchange rates prevailing at the balance sheet date.

17 Staff costs

The average monthly number of employees (including executive directors) were:

Number	**31 December 2005**	1 January 2005
UK - Group administration	**20**	24
	20	24

£ million	**Year ended 31 December 2005**	Year ended 1 January 2005
The aggregate remuneration comprised:		
Wages and salaries	**1.6**	2.1
Social security costs	**0.2**	0.2
Other pension costs	**0.2**	0.3
	2.0	2.6

18 Directors' remuneration

Directors' remuneration details are given in the Directors' remuneration report on page 34.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and eighteenth Annual General Meeting of Delta plc will be held at The Thistle Hotel Victoria, Buckingham Palace Road, London SW1W 0SJ on 28 April 2006 at 11 am for the following purposes:

Ordinary Business

1. To receive and consider the accounts for the financial year ended 31 December 2005 and the reports of the directors and auditors thereon.

2. To approve the report to shareholders on directors' remuneration for the year ended 31 December 2005.

3. To declare a final dividend on the ordinary shares.

4. To re-elect Steven Marshall as a director of the Company.

5. To elect Andrew Walker as a director of the Company.

6. To elect Kristen van Riel as a director of the Company.

7. To re-appoint Deloitte & Touche LLP as auditors of the Company and to authorise the directors to determine their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

8. THAT the Delta Performance Share Plan 2006 ("the Plan"), the principal terms of which are summarised in the Appendix to this Notice, copies of which have been produced to the meeting and signed by the Chairman for the purposes of identification, be approved and adopted and the Directors or a duly authorised committee of them be authorised to:

   (a) do such acts and things as they may consider necessary or expedient to carry the Plan into effect; and

   (b) make such modifications to the Plan as they may consider appropriate to take account of the requirements of the UK Listing Authority and best practice; and

   (c) establish further plans for the benefit of employees outside of the UK, based on the Plan but modified to take account of local tax, exchange control or securities law in overseas territories, provided that any shares made available under such plans are treated as counting against the limits on individual and overall participation contained in the Plan.

Notice of Annual General Meeting

To consider and, if thought fit, to pass the following resolution as a special resolution:

9. THAT the authority conferred on the Company by a special resolution passed at the extraordinary general meeting of the Company held on 25 April 1990 and subsequently renewed annually to make market purchases (as defined by Section 163(3) of the Companies Act 1985 as amended) of ordinary shares of 25p each in its capital be renewed provided that:

    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 15,000,000;

    (b) the minimum price which may be paid for each such ordinary share is the nominal value of such share and the maximum price which may be paid for such ordinary shares is not more than 5 per cent. above the average of the middle market quotations for such shares taken from the Daily Official List of London Stock Exchange plc for the five business days in respect of which such Daily Official List is published immediately preceding the date of purchase (in each case excluding expenses);

    (c) unless previously revoked or varied the authority hereby conferred is to expire on 5 August 2007 or at the conclusion of the Annual General Meeting in 2007, whichever is the earlier; and

    (d) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which may be or will be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

1 Kingsway, London WC2B 6NP
26 March 2006

On behalf of the Board
J P Narciso, Secretary

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, a person must be registered as the holder of ordinary shares by 6 pm on 26 April 2006 in order for such person to be entitled to attend or vote at the meeting in respect of those shares. Changes to entries on the register after 6 pm on 26 April 2006 shall be disregarded in determining the rights of any person to attend or vote (and the number of votes cast) at the meeting. A person must be registered as the holder of preference shares by the same time in order for such person to be entitled to attend the meeting in respect of those shares. Preference shares do not entitle their holders to vote at the meeting.

Any member entitled to attend and vote at this meeting may appoint one or more proxies, whether a member of the Company or not, to attend and vote on the member's behalf. A form of proxy is enclosed for the use of members who may wish to vote but who are unable to attend the meeting. This must reach the registrars not later than 48 hours prior to the time set for the meeting in order to be effective. Completing and returning a form of proxy will not prevent a member from attending and voting at the meeting should the member so wish.

Appendix to the Notice of Annual General Meeting

Copies of service contracts under which the directors of the Company are employed, the register of directors interests and the rules of the Delta Performance Share Plan 2006 will be available for inspection at the Company's registered office during normal office hours on any business day from 26 March 2006 to the date of the meeting, and at the place of the meeting from fifteen minutes prior to and during the meeting.

New incentive arrangements

Introduction

In addition to the usual business dealt with at the Annual General Meeting, resolution 8 seeks authority to establish a new long-term equity incentive arrangement, the Delta Performance Share Plan 2006.

The Company's senior management team face particular challenges in a period of continuing change, as the Group's portfolio is progressively re-shaped and as the legacy issues are actively managed.

With such challenges in mind, the Remuneration Committee (the "Committee") has recently undertaken a full review of the Company's remuneration policy for senior executives, with the assistance of New Bridge Street Consultants LLP.

The Committee concluded the remuneration arrangements should place more emphasis on annual bonuses than long-term incentives, on the basis that in a period of such change it is easier to set meaningful annual targets than long-term ones.

Accordingly, the Committee formulated revised bonus arrangements increasing the potential bonus while requiring that a very substantial element of the bonus should be deferred for a period and invested in shares subject to forfeiture if the executive leaves employment. The Committee also proposed that shareholder authority be sought for a new modest long-term equity incentive arrangement, a performance share plan, to replace the existing Executive Share Option Scheme. The Committee believes that these arrangements will align executive interests with investors, and help retain and incentivise senior management.

Bonus deferral arrangements

Full details of the revised annual bonus arrangements can be found in the Directors' remuneration report of the Annual Report and Accounts 2005.

In summary, however, the annual bonus maximum from 2006 will be increased from 100% of basic salary for the Chief Executive to 150% of basic salary.

Other members of the senior management team will have their bonus maxima increased from 40% or 60% of salary to 45% or 90% respectively.

One half of any bonus payable will be invested in ordinary shares in the Company, released three years thereafter subject to continued employment within the Company's group (the "Group").

Appendix to the Notice of Annual General Meeting

Bonus deferral arrangements (continued)

Effectively therefore the cash element of the bonus is reduced from current levels. Such "deferred" shares will be forfeited on cessation of employment prior to the third anniversary of award except in the case of "good leavers" (e.g. on cessation by reason of injury) in which case the shares will be released early.

The deferred shares would also be released early on the change of control in the Company.

Performance Share Plan

The Committee propose a new long-term equity incentive arrangement, the Delta Performance Share Plan 2006 ("the Plan").

Under the terms of the Plan, selected individuals may be granted a conditional award of ordinary shares in the Company, ordinarily vesting on the third anniversary of the date of grant subject to continued employment within the Group and the satisfaction of a challenging performance condition.

For initial awards, vesting will be based on the Company's relative Total Shareholder Return (TSR) compared to that of the constituents of the FTSE Small Cap Index (excluding investment trusts) over a fixed three-year period. Twenty five per cent of the shares under award will vest if the Company's TSR is ranked median and 100% will vest at the upper quartile, with pro-rata vesting for performance between median and upper quartile.

In addition, irrespective of the TSR test, awards will only vest if the Committee considers that the Company's underlying financial performance has been satisfactory over the performance period.

Awards under the Plan will be limited to shares having a market value at the date of grant of no more than 50% of the grantee's salary, except in exceptional circumstances, such as recruitment or retention, where this may be increased subject to an overriding cap of 100%.

The current intention is that the initial awards will not exceed 40% of salary.

Assuming approval is secured for the Plan, no further grants will be made under the Company's Executive Share Option Scheme.

The Committee also proposes to adopt share ownership guidelines for executive directors, under which the Committee will expect executive directors to retain no fewer than 50% of the shares that vest under the Company's share incentive plans (after tax and financing costs), until such time as a holding of 100% of salary is achieved.

Appendix to the Notice of Annual General Meeting

Summary of the principal terms of the Plan

The principal terms of the Plan are set out below:

Operation
The Remuneration Committee of the Board of directors of the Company (the "Committee") will supervise the operation of the Plan.

Eligibility
Any employee (including an executive director) of the Company or any of its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee.

Grant of awards
Awards granted under the Plan can take one of two forms:

(i) conditional allocations. where a participant will receive shares automatically on the vesting of their award; or

(ii) nil (or nominal) cost options. where a participant can decide when to exercise their award during a limited period of time after it has vested.

Although it is not currently the Committee's intention to do so, it may decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash.

The Committee may normally only grant awards within six weeks of the approval of the Plan by shareholders and within six weeks following the Company's announcement of its results for any period. The Committee may also grant awards when there are exceptional circumstances which the Committee considers justify the granting of awards. It is intended that initial awards will be made shortly following shareholder approval of the Plan.

No awards will be granted more than ten years after the approval of the Plan by shareholders.

Awards are not transferable, except on death. Awards are not pensionable.

Individual limit
An individual may not receive an award in any financial year having a market value in excess of 50% of their basic salary, save in exceptional circumstances, where this may be exceeded subject to an overriding cap of 100% of basic salary.

Vesting of awards
Awards will normally vest 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 Group.

Appendix to the Notice of Annual General Meeting

Summary of the principal terms of the Plan (continued)

Performance conditions
All awards will be subject to performance conditions set by the Committee at grant geared to the Company's performance over a single fixed three year period (the "performance period"), ordinarily beginning on the first day of the financial year in which an award is granted.

For the initial awards the performance conditions will be based on a condition measuring the Company's relative total shareholder return (TSR) performance against the constituents of the FTSE Small Cap Index (excluding investment trusts) at grant over the three financial years starting with the financial year in which the award is made.

No part of an award will vest unless the Company's TSR performance is at least median to that of the comparator group. Thereafter the following vesting schedule will apply:

Company's TSR ranking against FTSE Small Cap (excluding investment trusts)	Vesting %
Below median	0%
Median	25%
Upper quartile	100%
Between median and upper quartile	25% - 100% pro-rata

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

In addition, irrespective of TSR performance, awards will only vest if the Committee considers that the Company's underlying financial performance has been satisfactory over the performance period.

Awards will lapse at the end of the relevant performance period to the extent that the performance conditions have not been satisfied (i.e. there is no ability to 're-test').

The Committee may amend the performance conditions applying to existing awards to take account of events that the Committee considers to be exceptional (e.g. technical changes such as changes in accounting standards), provided that, in the opinion of the Committee, the amendment is required so that the performance conditions achieve their original purpose and are not materially less challenging than those originally set.

The Committee will review the performance conditions each time awards are granted and may impose different performance conditions for awards granted in subsequent years. However if they are substantially different, the Company would consult with its major shareholders. Further, if in the opinion of the Committee, the different performance conditions are materially less challenging than those originally set, formal shareholder consent would be sought.

Appendix to the Notice of Annual General Meeting

Summary of the principal terms of the Plan (continued)

Leaving employment
As a general rule, an award will lapse upon a participant leaving the employment of the Group. If however, a participant ceases employment before vesting for a good leaver reason (e.g. death, disability, injury, sale of the participant's employing company or business out of the Company's group, retirement (at a participant's normal retirement age or early retirement with the consent of his employing company) or in other circumstances at the discretion of the Committee (including redundancy)), then the award will ordinarily vest on the normal vesting date (i.e. the third anniversary from the date of grant) to the extent that the performance conditions are met over the full performance period.

Exceptionally (and normally in the case of death) the Committee may, at its discretion, permit awards to vest in such circumstances at the time of cessation of employment with the performance conditions then considered by the Committee over the curtailed period.

There would be pro-rata reduction in the size of an award to reflect the time between grant and cessation (unless the Committee determines that it would be inappropriate to apply a pro-rata reduction).

Corporate events
In the event of a takeover, scheme of arrangement or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early to the extent that the performance conditions have, in the opinion of the Committee, been satisfied at that time. The awards will then be time pro-rated to reflect the reduced period of time between the grant of the awards and the time of vesting, unless the Committee decides, having carefully considered the interests of shareholders and the circumstances surrounding the event in question that it would be inappropriate to apply such a reduction.

In the event of an internal corporate reorganisation, awards will be replaced by equivalent new awards over shares in a new holding company, unless the Committee decides that awards should vest on the same basis as described above.

Plan limits
The Plan may operate over new issue shares, treasury shares or shares purchased in the market. In any ten calendar year period the Company may not issue (or grant rights to issue) more than:

(a) 10% of the issued ordinary share capital of the Company under the Plan or any other employee share plan adopted by the Company; and

(b) 5% of the issued ordinary share capital of the Company under the Plan or any other executive share plan adopted by the Company.

Shares held in treasury will count as new issue shares for the purpose of these limits, unless institutional investor bodies decide otherwise.

Appendix to the Notice of Annual General Meeting

Summary of the principal terms of the Plan (continued)

Dividend equivalent
Participants will ordinarily be entitled to receive a payment (in cash and/or shares) on or shortly following the vesting of their awards, of an amount equivalent to the dividends that would have been paid on the vested shares between the time when the awards were granted and the time when they vest.

Variation of capital
In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the shares, the Committee may make such adjustments as it considers appropriate to the number of shares subject to an award and/or to the exercise price payable (if any).

Rights attaching to shares
Any shares allotted when an award vests (or for an award structured as an option, when it is exercised) will rank equally with all other shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Alterations to the Plan
The Committee may, at any time, amend the provisions of the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendment that is to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of shares (or the transfer of shares held in treasury), the basis for determining a participant's entitlement to, and the terms, of the shares to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

New Bridge Street Consultants LLP has given and not withdrawn its written consent to the inclusion of its name in this document.

Shareholders' information

Calendar 2006

Dividends on ordinary shares	Final 2005	Announcement	**March 2006**
		Payable	**1 June 2006**
		to members registered on	**21 April 2006**
	Interim 2006	Announcement	**September 2006**
		Payable	**1 December 2006**
		to members registered on	**22 September 2006**
Annual general meeting		Proxies to reach registrars by 11am	**26 April 2006**
		Meeting to be held at 11am	**28 April 2006**
Accounting periods		First half year 2006 ends	**1 July 2006**
		Second half year 2006 ends	**30 December 2006**

Ownership of ordinary shares

At 31 December 2005

By type of shareholder

Shareholders			Ordinary shares in issue	
Number	**%**	**Description**	**Number in millions**	**%**
4,379	87.0	Individual shareholders	7.4	4.8
576	11.5	Bank or Nominees	137.8	90.2
2	0.0	Insurance companies and pension funds	0.0	0.0
76	1.5	Other institutions	7.6	5.0
5,033	100.0		152.8	100.0

By size of shareholding

Shareholders			Ordinary shares in issue	
Number	**%**	**Description**	**Number in millions**	**%**
2,486	49.4	held up to 999 shares	1.0	0.7
2,341	46.5	held between 1,000 and 24,999 shares	7.9	5.2
136	2.7	held between 25,000 and 249,999 shares	11.2	7.3
70	1.4	held 250,000 shares and above	132.7	86.8
5,033	100.0		152.8	100.0

Registrars

Our registrars, Lloyds TSB Registrars, operate a call centre dealing with shareholder enquiries. Should you need any information in respect of your shareholding, please call 0870 600 3970. Their address is Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Additionally, for those with hearing disabilities, the Registrars have provided a textphone number, 0870 600 3950.

Shareview, www.shareview.co.uk, allows shareholders to view their details on line and download forms e.g. stock transfer forms, dividend mandates and change of address.

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