GIBRALTAR INVESTMENTS (NO. 7) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD FROM 19 SEPTEMBER 2002 TO 25 SEPTEMBER 2003

Company number 4540026

DIRECTORS AND ADVISORS

DIRECTORS

W Tame
F Martinelli

SECRETARY

R Martin

REGISTERED OFFICE

2 Cavendish Square
London
W1G 0PX

AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

DIRECTORS' REPORT
for the period ended 25 September 2003

The directors present their report and the audited financial statements of the company for the period ended 25 September 2003.

Principal activity

The company was incorporated on 19 September 2002. On 26 September 2002 the subscription monies received on the issued share capital were placed in an interest bearing deposit account. The company was acquired by Babcock Management Limited on 11 September 2003 for a consideration of £1,026.

The principal activity of the company is an investment company. There are no plans to alter significantly the business of the company.

Results and dividends

The profit for the period was £30,010,026. The directors propose a final dividend of £30,010,000.

Directors and their interests

The members of the Board during the period and since the period end were:

W Tame
F Martinelli
C Mitchell (resigned 11 September 2003)
R Martin (resigned 5 May 2004)

None of the directors has any beneficial interest in the company's own shares. At 25 September 2003 Mr W Tame was also a director of the ultimate parent company and his interests in the shares of that company are disclosed in that company's accounts.

The interests of the other directors in the shares of Babcock International Group PLC, the company's ultimate parent company, were as follows:

DIRECTORS' REPORT (continued)
for the period ended 25 September 2003

	Ordinary shares Number	Share options Number
	25 September 2003	25 September 2003
F Martinelli	-	115,000

During the period 115,000 share options were granted to F Martinelli.

No director had any material interest during the year in any contract with the company or its subsidiaries requiring disclosure under Section 317 of the Companies Act 1985.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 25 September 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

This report was approved by the Board on 28 September 2004 and signed on its behalf by:

W Tame
Director

Independent auditors' report to the members of Babcock Gibraltar Investments (No. 7) Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the accounting policies note.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 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 financial statements.

Independent auditors' report to the members of Babcock Gibraltar Investments (No. 7) Limited (continued)

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs at 25 September 2003 and of its results for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

28th September 2004

PROFIT AND LOSS ACCOUNT
for the period from 19 September 2002 to 25 September 2003

	Notes	2003 £000
Profit on disposal of investments	8	**30,010**
Profit on ordinary activities before tax		**30,010**
Tax on profit on ordinary activities	3	**-**
Profit for the financial period		**30,010**
Dividends paid and payable		**(30,010)**
Retained profit for the period		**0**

During the period there were no recognised gains and losses other than those dealt with in the profit and loss account. All results derive from continuing activities. The retained profit in the current and period represents the only movement in shareholders' funds.

The accompanying notes form an integral part of this profit and loss account.

There are no material differences between profit on ordinary activities before tax and the retained profit for the period stated above and their historical cost equivalent.

BALANCE SHEET
as at 25 September 2003

	Notes	2003 £000
CURRENT ASSETS		
Debtors	4	**30,010**
Cash at bank		**1**
		30,011
CREDITORS:		
Amounts falling due within one year	5	**(30,010)**
NET CURRENT ASSETS		**1**
NET ASSETS		**1**
CAPITAL AND RESERVES		
Called up share capital - equity	6	**1**
Profit and loss account		**0**
Shareholders' funds – equity interests		**1**

The financial statements on pages 6 to10 were approved by the Board on 28 September 2004.

W Tame
Director

The accompanying notes form an integral part of this balance sheet.

1 ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

Cash flow

A cash flow statement has not been prepared as the company has taken advantage of the exemption under FRS1 (Revised 1996) available to wholly owned subsidiaries of a company incorporated in the EU whose consolidated financial statements include a consolidated cash flow statement.

Oil futures contracts

Oil futures contracts are valued at the lower of cost and market value. Any movements are reflected in the profit and loss account.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

During the year the Babcock International Group has continued its policy of surrendering tax losses and advance corporation tax to group undertakings for no consideration except where there is a minority interest in the subsidiary.

2 STAFF COSTS AND DIRECTORS REMUNERATION

There were no staff employed during the period and none of the directors received remuneration in respect of their services to the company during the period under review.

The directors are remunerated by other group companies.

3 TAXATION

There is no corporate tax charge for the year, due to the availability of capital losses in the Babcock group which offset the gain and for which no payment is made.

4 DEBTORS

	2003 £000
Amounts owed by parent undertaking	30,010
	30,010

5 CREDITORS:

	2003 £000
Proposed dividend	(30,010)
	(30,010)

6 CALLED UP SHARE CAPITAL

	2003 £000
Authorised:	
50,000,000 ordinary shares of £1 each	**50,000**
Allotted, called up and fully paid:	
1,000 ordinary shares of £1 each	**1**
Allotted, called up and partly paid:	
3,000,000 ordinary shares of £1 each	**-**

7 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries, by FRS8 Related Party Disclosures, not to disclose transactions with group undertakings.

8 DERIVATIVE CONTRACT

The oil contract was sold on 23 September 2003. This resulted in a profit of £30,010,000.

9 ULTIMATE CONTROLLING PARTY

The company's immediate parent undertaking is Babcock Management Limited. The company's ultimate parent company is Babcock International Group PLC, a company registered in England and Wales. The only group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of the Babcock International Group PLC accounts are available from the following address:

Babcock International Group PLC
2 Cavendish Square
London
W1G 0PX