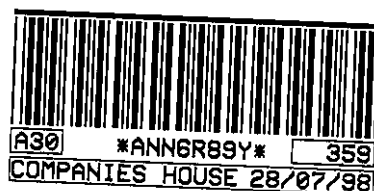


P&O Subsea Limited

REGISTERED NUMBER : 658000

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1997



P&O Subsea Limited

REPORT OF THE DIRECTORS

The directors present their annual report and the accounts of the Company for the year ended 31 December 1997.

The Company did not trade during the year.

The directors during the year were:

R M Gradon
N J Monteith
M Owen

According to notifications received by the Company relating to the interests of the directors and their families in the share capital and debentures of group companies, there were the following interests in the stock of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company:

	Deferred Stock			Deferred Stock under option		
	1997	1996		Granted in year	Exercised in year	1996
R M Gradon	10,107	5,272	63,284	3,330	-	59,954
N J Monteith	3,716	2,460	24,903	-	884	25,787
M Owen	15,443	11,380	6,029	-	3,083	9,112

In addition M Owen had an interest in £600 5.5% concessionary stock, at 31 December 1997 and 1996.

R M Gradon is a member of the P&O Long Term Incentive Plan and on 27 March 1998, under the scheme, he was awarded £14,764 nominal of deferred stock which is receivable after a retention period of two years.

79 Pall Mall
London SW1Y 5EJ
6 July 1998

On behalf of the Board



M OWEN
Director

P&O Subsea Limited

BALANCE SHEET AT 31 DECEMBER 1997

	Note	31 Dec 1997 £	31 Dec 1996 £
CURRENT ASSETS			
Amount owed by fellow subsidiary		<u>35,522</u>	<u>35,522</u>
CAPITAL AND RESERVES			
Called up share capital	2	1,000	1,000
Share premium account		-	-
Other reserves		-	-
Capital reserve		-	-
Profit and loss account		(9,665,478)	(9,665,478)
Equity shareholders' funds		<u>(9,664,478)</u>	<u>(9,664,478)</u>
Creditors (due within one year)			
Loan stock held by fellow subsidiary	3	9,700	9,700
Loan stock held by holding company	3	9,690,300	9,690,300
		<u>35,522</u>	<u>35,522</u>

Within the meaning of Section 250 of the Companies Act 1985 the Company was dormant throughout the year.

The financial statements were approved by the Board on 6 July 1998 and were signed on its behalf by N J Monteith.



N J MONTEITH
Director

NOTES

- These financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards. The company has not traded during the year nor the preceding year and thus no profit and loss account has been prepared.
- Share capital, authorised, allotted, called up and fully paid at 31 December 1997 and 1996 was:

	Authorised £	Called up £
Ordinary shares of £ 1 each	<u>1,000</u>	<u>1,000</u>
- The unsecured loan stock are held by the ultimate holding company and a fellow subsidiary company, and bear interest at a rate determined from time to time by the directors. The rate during 1997 was nil (1996 nil).

NOTES (continued)

- 4 The Company's ultimate holding company is The Peninsular and Oriental Steam Navigation Company, incorporated by Royal Charter in Great Britain and therefore not registered. Its accounts are available to the public from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.