

PENNON TRUSTEE LIMITED
ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 MARCH 2005



PENNON TRUSTEE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 March 2005

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PENNON TRUSTEE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2005

The Directors present their report and the audited financial statements for the year ended 31 March 2005.

BUSINESS

The Company acts as Corporate Trustee of the Pennon Group Qualifying Employee Share Ownership Trust.

During the year to 31 March 2005 the Company did not trade and incurred neither profit nor loss. The Directors recommend that no dividend be paid in respect of the year ended 31 March 2005 (2004 nil).

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who have served on the Board during the year were:

R K Randall
K D Woodier

No Director held any beneficial interest in the shares of the Company during the year.

The interests in the Ordinary shares of Pennon Group Plc of the Directors holding office at the end of the year are as follows:

	Ordinary shares of £1.11 each		Options over Ordinary shares				31 March 2005
	31 March 2005	1 April 2004	1 April 2004	Exercised in period	Granted in period	Lapsed in period	
R K Randall	4,198*	6,585*	3,660	-	-	-	3,660
K D Woodier	10,461*	8,552*	1,745	-	-	-	1,745

* In addition, Messrs Randall and Woodier had contingent interests on 1 April 2004 in 11,577 and 25,337 shares respectively and on 31 March 2005 in 11,791 and 30,157 shares respectively, representing the maximum number of shares to which they would become entitled under the Pennon Group Restricted Share Plan if all the relevant criteria are met. During the year, all the shares awarded to Mr Woodier under the 2000 and 2001 awards vested on 27 May 2004 and 13 September 2004, respectively. The shares awarded to Mr Randall under the 2000 award vested in 2003. His 2001 award vested on 13 September 2004. Fifty per cent of the shares awarded in 2002 to Directors have vested because the performance condition has been partially met.

At 1 April 2004, Messrs Randall and Woodier also had conditional interests in 3,043 and 7,310 shares respectively and on 31 March 2005 in 4,511 and 10,813 shares respectively under the terms of the Pennon Group Annual Incentive Bonus Plan, representing the maximum number of shares to which they would usually become entitled if they remain employed by the Pennon Group for a further three years from the dates of the awards. All Messrs Randall's and Woodier's share have vested under their 2002 awards as the criterion has been met.

PENNON TRUSTEE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2005 (Continued)

DIRECTORS AND DIRECTORS' INTERESTS (Continued)

During the year Messrs Randall and Woodier received dividends on the above shares in accordance with the conditions of the Pennon Group Restricted Share Plan and the Pennon Group Annual Incentive Bonus Plan.

AUDITORS

In accordance with Section 386 of the Companies Act 1985, the Company passed an elective resolution on 12 February 2004, whereby it dispensed with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP have indicated their willingness to continue as auditors.

ANNUAL GENERAL MEETING

In accordance with Sections 252 and 366A of the Companies Act 1985, the Company passed elective resolutions on 19 April 1993, whereby it elected to dispense with the laying of accounts and reports before the Company in general meeting, and to dispense with the holding of annual general meetings.

By Order of the Board



K D WOODIER
Secretary

20 OCTOBER 2005

PENNON TRUSTEE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the Auditors' Statement of Auditors' Responsibilities set out on page 4, 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 required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 5 and 6, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and hence to prevent and detect fraud and other irregularities.

PENNON TRUSTEE LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF PENNON TRUSTEE LIMITED

We have audited the financial statements which comprise the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

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 as 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.

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2005 and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors

31 Great George Street
BRISTOL
BS1 5QD

22 October 2005

PENNON TRUSTEE LIMITED

BALANCE SHEET
as at 31 March 2005

	Note	2005 £	2004 £
Current assets			
Cash in hand		<u>2</u>	<u>2</u>
Capital and reserves			
Called-up share capital	2	<u>2</u>	<u>2</u>

The notes on page 6 form part of these financial statements.

These financial statements were approved by the Board on 20 October 2005 and signed on their behalf by:



R K RANDALL
Director

PENNON TRUSTEE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) **Accounting convention**

The financial statements have been prepared under the historical cost convention and in compliance with all applicable accounting standards and with the Companies Act 1985.

b) **Audit fees and administration costs**

Audit fees and administration costs of the Company are paid by Pennon Group Plc.

c) **Profit and loss account**

The Company has not traded during the current or the previous financial year. As a result no profit or loss account is presented in these financial statements.

2. Called-up share capital

	2005 £	2004 £
Authorised		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called-up and fully paid		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

3. Directors' emoluments

The Directors received no emoluments for their services to the Company in the year (2004 nil).

4. Ultimate parent company

The ultimate parent company is Pennon Group Plc, which is registered in England. Group financial statements are included in the Annual Report of Pennon Group Plc which is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.