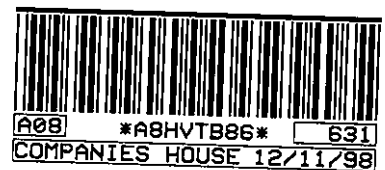


Registered Number: 2456467

SWW TRUSTEE LIMITED
ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH 1998



SWW TRUSTEE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31 March 1998

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SWW TRUSTEE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998

The Directors present their report and the audited financial statements for the year ended 31 March 1998.

BUSINESS

During the year to 31 March 1998 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 1998 (1997 nil).

The Company acts as the Corporate Trustee of South West Water Qualifying Employee Share Ownership Trust.

DIRECTORS AND DIRECTORS' INTERESTS

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

R J Acock
M V Culley
K L Hill
R K Randall
K D Woodier (appointed 1 March 1998)
R C Milligan (resigned 28 February 1998)

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

Mr K L Hill is a Director of Pennon Group Plc (formerly South West Water Plc) and his interests in the Ordinary shares of that company are disclosed in the financial statements of Pennon Group Plc. The interests in the Ordinary shares of Pennon Group Plc of the other Directors holding office at the end of the year are as follows:

	<u>Ordinary shares of £1 each</u>		<u>Options over Ordinary shares of £1 each</u>			<u>31 March 1998</u>
	<u>31 March 1998</u>	<u>1 April 1998 or Date of Appointment</u>	<u>1 April 1997 or Date of Appointment</u>	<u>Exercised in year</u>	<u>Granted in year</u>	
M V Culley	97	97	544	-	-	544
R K Randall	4,748*	4,897	9,349	-	-	9,349
K D Woodier	292*	292	3,049	-	-	3,049

R J Acock had no interests in the Ordinary shares of Pennon Group Plc.

*In addition, Messrs Randall and Woodier have a contingent interest in 1600 and 2692 shares respectively representing the maximum number of shares to which they would become entitled under the Group Restricted Share Plan if all the relevant criteria are met.

SWW TRUSTEE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998 (Cont'd)

AUDITORS

In accordance with Section 386 of the Companies Act 1985, the Company passed an elective resolution on 18 November 1997 whereby it dispensed with the obligation to appoint auditors annually. Following the merger of Price Waterhouse with Coopers & Lybrand on 1 July 1998, the appointment of Price Waterhouse as auditors has been extended to the new partnership of PricewaterhouseCoopers. PricewaterhouseCoopers have indicated their willingness to continue as auditors.

CLOSE COMPANY

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

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

19 OCTOBER 1998

SWW 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.

SWW TRUSTEE LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF SWW TRUSTEE LIMITED

We have audited the financial statements on pages 5 and 6 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of Directors and Auditors

As described on page 3 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

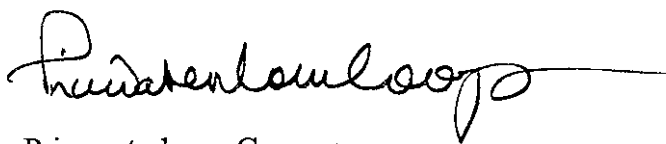
Basis of opinion

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 as at 31 March 1998, and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

31 Great George Street
BRISTOL
BS1 5QD

19. 10 . 1998

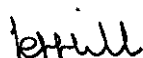
SWW TRUSTEE LIMITED

BALANCE SHEET
as at 31 March 1998

	Note	1998 £	1997 £
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 ~~19 OCTOBER~~ 1998 and signed on their behalf by:



K L HILL
Director

SWW TRUSTEE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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.

2. Called-up share capital

	1998 £	1997 £
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. 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.