

**Company Registration No. 4677985**

**ARTESIAN FINANCE II PLC**

**Annual Report and Financial Statements**

Year ended 31 March 2025

**ARTESIAN FINANCE II PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS 2025**

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## **ARTESIAN FINANCE II PLC**

### **ANNUAL REPORT AND FINANCIAL STATEMENTS 2025**

#### **OFFICERS AND PROFESSIONAL ADVISERS**

##### **DIRECTORS**

Sean Peter Martin  
Apex Trust Corporate Limited  
Apex Corporate Services (UK) Limited

##### **SECRETARY**

Apex Trust Corporate Limited  
4th Floor  
140 Aldersgate Street  
London  
United Kingdom  
EC1A 4HY

##### **REGISTERED OFFICE**

4<sup>th</sup> Floor  
140 Aldersgate Street  
London  
United Kingdom  
EC1A 4HY

##### **BANKERS**

The Royal Bank of Scotland plc  
Corporate Banking  
5th Floor  
250 Bishopsgate  
London  
United Kingdom  
EC2M 4AA

##### **AUDITOR**

Ernst & Young LLP  
25 Churchill Place  
Canary wharf  
London  
United Kingdom  
E14 5EY

## ARTESIAN FINANCE II PLC

### STRATEGIC REPORT

The “Directors” present their strategic report for Artesian Finance II plc (“the Company”) for the year ended 31 March 2025.

#### ACTIVITIES

The Company was incorporated in the United Kingdom and commenced operations on 25 February 2003. It is registered as a public limited company under the Companies Act 2006.

The principal activity of the Company is to hold loans advanced to water companies.

#### PRINCIPAL ACTIVITY

The Company is authorised to issue bonds up to £500,000,000 (2024: £500,000,000) (“the Bonds”). The Company has no intention to change the business activities. The Bonds are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest under the terms of a guarantee issued by Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) Plc).

#### BUSINESS REVIEW

The loan portfolio of the Company consists of two fixed rate and three UK Retail Price Index (“RPI”) linked loans which were funded through the issuance of the fixed rate bonds. Total return swaps were entered into by the Company to exchange RPI linked cash flows it receives on the loans for the fixed coupon amount payable on the Bonds. The net fair value decrease of these assets is £38,945,000 (2024: £3,978,000); offset by a net fair value increase of the liabilities of £38,866,000 (2024: £3,954,000). Total assets are the key performance indicator for the Company. The total assets for 2024 are £662,069,000 (2024: £701,001,000).

#### PRINCIPAL RISKS AND UNCERTAINTIES

The uncertain and volatile environment, combined with fluctuating interest rates, significantly influences the broader macroeconomic landscape. This affects various factors such as business confidence, property prices, loan default rates, and consumer behaviour, all of which can negatively impact effectiveness and other related indicators. The directors acknowledge that the global macro-economic indicators and general business environment have remained uncertain and volatile in the year to 31 March 2025. The outlook for the global economy has many uncertainties including inflation and interest rate, asset prices, energy prices, monetary and fiscal policy and trade barriers including tariffs. These economic and market conditions could be exacerbated by number of factors including instability in global financial systems, market volatility and change, fluctuation in the value of Euro, volatility in commodity prices or concerns.

In the year to 31 March 2025, the economy continued its recovery and came out of post-COVID19 stagnation with an upswing in the first half of 2024 as household income recovered. The growth lost momentum in the second half of 2024 and the outlook remains that of moderate growth. Inflation has declined over the financial year, although the progress is slower than expected and inflation is likely to take longer to reach the target. As a result, rates are expected to remain higher-for-longer than previously expected. The unemployment rate increased modestly but it is underpinned by a still resilient labour market. There was emerging risk to the labour market due to higher tax burdens, but the impact is likely to be moderate. House prices were previously assumed to decline in year to 2025, but they performed better than expected.

The directors are closely monitoring the potential impact of global macro-economic factors on the Company’s financial results and cash flows for the business. The Company will continue to monitor the market to assess current and future developments. The directors believe that the Company is not directly impacted by the on-going conflict in Ukraine, the associated Russian sanctions and Israel-Gaza Middle East conflicts. There could be an indirect effect on the Company, but the directors anticipate the impact would be minimal and certainly no worse than the economic turbulence experienced during the COVID-19 pandemic.

The Company makes use of reasonable and supportable information to make accounting judgments and estimates. This may include information about the observable effects of the physical and transition risks of climate change, if such risks were to be relevant to the Company; however, in the Directors’ opinion, no such risks are currently relevant to the Company. Many of the effects arising from climate change will be longer term in nature, with an

**ARTESIAN FINANCE II PLC****STRATEGIC REPORT (CONTINUED)****PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

inherent level of uncertainty and have limited effect on accounting judgments and estimates for the current period.

Further, we have considered the existence of total return swaps and our assessment of the financial performance of the underlying water companies and their liquidity position, which has mitigated the uncertainties associated with global macro-economic factors including the different ways in which this could impact the cash flows, solvency and liquidity position of the Company.

Based on this assessment, the Directors have a reasonable expectation that there is no material impact of macro-economic factors on the Company's financial instruments valuation or liquidity and the Company has adequate resources to continue in operational existence for the period to 26 September 2026, which is in excess of 12 months from when the financial statements are authorised for issue. We continue to monitor the potential impact of the above matters on the Company.

Notwithstanding the risks and uncertainties above, the financial statements have been prepared on the going concern basis as discussed in Note 1.

**Credit risk**

The main risk arising from the Company's financial instruments is credit risk. The Company faces the credit risk that the borrowers might not be able to meet their obligations as they fall due. The Company has purchased a guarantee over the principal and the interest due on the bonds from Assured Guaranty UK Limited, who are currently rated by Standard & Poor's at AA (2024: AA). The maximum exposure to credit risk arising on the Company's financial assets as at the reporting date and prior year end is the Statement of Financial Position amount. No loans are past due or impaired at the year-end or prior year-end.

**Liquidity risk**

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

Funding has been obtained through the issue of bonds.

Liquidity risk is mitigated by both matching the timing of receipts and payments on the loans and derivative with the obligations on the bonds and having in place a guarantee to ensure that its obligations on the bonds can be met.

**Interest rate risk**

Interest rate risk is managed by matching the interest terms of the bonds issued with the loans held. Total return swaps were entered into by the Company to exchange index-linked cash flows it receives on its loan assets for the fixed coupon amount payable on the bonds. The swap counterparties continue to have high credit ratings; therefore no significant interest rate risk issues are noted.

**Director's Duties**

Section 172(1) of Companies Act 2006 requires the directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. As a special purpose vehicle, the governance structure of the Company is such that the key policies have been predetermined at incorporation and the transaction documents formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and in accordance with relevant legislation. Furthermore, the Company has a sole member, no employees and as a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment.

Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties, including Section 172(1), and were briefed on the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations.

Approved by the Board of Directors and signed on behalf of the Board



Signed by Sean Peter Martin

Director

Date: 29 September 2025

## **ARTESIAN FINANCE II PLC**

### **DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2025.

### **RESULTS AND DIVIDENDS**

The results for the year and the state of the Company's affairs as at 31 March 2025 are set out in the accompanying financial statements. The Directors do not recommend the payment of a dividend (2024: Nil).

### **DIRECTORS**

The Directors who served throughout the year are as follows:

Sean Peter Martin  
Apex Trust Corporate Limited  
Apex Corporate Services (UK) Limited

None of the Directors has any beneficial interest in the Company (2024: Nil).

### **EMPLOYEES**

The Company had no employees in the current year or prior year.

### **CORPORATE GOVERNANCE**

The Board of Directors has overall responsibility for the Company's internal controls systems and risk control which are managed in accordance with the terms of the Bonds issued, as described in the Offering Circular for the Bonds. These are monitored through regular meetings of the Board.

### **FUTURE DEVELOPMENTS**

The Directors do not anticipate any changes to the present level of activity or the nature of the Company's business in the near future.

### **AUDITOR**

Ernst & Young LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

### **GOING CONCERN**

The Company's business activities, performance and position, as well as principal risks and uncertainties are set out on pages 2 and 3. In addition, note 1 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has met its level of expected results for the financial period, and determined that its assets are performing as at the Statement of Financial Position date and therefore does not expect a shortfall in cash receipts from the borrowers. As at the Statement of Financial Position date, the Company has net assets of £970,000 (2024: £1,041,000). Currently the long-term assets are funded by long-term fixed rate bonds.

Total return swaps were entered into by the Company to exchange index-linked cash flows it receives on its loan assets for the fixed coupon amount payable on the Bonds. The swap counterparties continue to have high credit ratings; therefore no significant credit issues are noted. In order to protect the Company and the bond holders in the event of a shortfall of funds available to pay amounts on the Bonds, the Company has purchased a guarantee over the principal and the interest due on the bonds from Assured Guaranty UK Limited, who are currently rated by Standard & Poor's at AA (2024: AA).

## **ARTESIAN FINANCE II PLC**

### **DIRECTORS' REPORT (CONTINUED)**

#### **GOING CONCERN (CONTINUED)**

After making enquiries, and considering the uncertainties set out on pages 2 and 3, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the period to 26 September 2026, which is in excess of 12 months from when the financial statements are authorised for issue. For these reasons, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

#### **DISCLOSURE OF INFORMATION TO THE AUDITOR**

Each of the persons who is a Director at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board



Signed by Sean Peter Martin  
Director  
Date: 29 September 2025

## ARTESIAN FINANCE II PLC

### DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare a Strategic Report, Directors' Report and financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland; and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss of the Company for that year. In preparing these financial statements, the Directors are 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 FRS 102 are 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
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

Approved by the Board of Directors and signed on behalf of the Board



Signed by Sean Peter Martin

Director

Date: 29 September 2025



INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC

Opinion

We have audited the financial statements of Artesian Finance II Plc (‘company’) for the year ended 31 March 2025 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity, Statement of cash flows and the related notes 1 to 14 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company’s affairs as at 31 March 2025 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of the principal activity and risks of the company, with the bonds being collateralised by underlying loans to water companies, and a third party guarantee in place to unconditionally and irrevocably guarantee all scheduled payments of principal and interest due throughout the life of the bonds.
- We reviewed the director’s going concern assessment and associated disclosures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for the period to 26 September 2026, which is 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company’s ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Estimation uncertainty with respect to valuation of the loan portfolio
Materiality	• Overall materiality of £3.3m which represents 0.5% of Total assets.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC****An overview of the scope of our audit****Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

**Changes from the prior year**

There were no changes to the scope of our audit compared to prior year.

**Climate change**

The Company has determined that there is no material impact from climate change known about now or that could arise in the future and we concur this is appropriate. This is explained on page 2 in the Principal risk and uncertainties. This disclosure forms part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit, we assessed the potential impacts of climate change on the Company's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on page 2. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC****Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Risk</b>	<b>Our response to the risk</b>	<b>Key observations communicated to those charged with governance</b>
<b>Estimation uncertainty with respect to valuation of the loan portfolio</b>		
<p>As per Note 7 and Note 9 to the financial statements, at 31 March 2025 the company reported total loans of £661m (2024: £700m) in the financial statements.</p> <p>We consider inappropriate valuation of loans held at fair value and related revenue as a fraud risk. This is based on our assessment of the level of management judgement involved in selection of valuation techniques and relevant data inputs.</p> <p>We do not consider the identified risk to have increased since the prior year as we have not identified any new circumstances which are likely to impact the fair value as at the balance sheet date.</p>	<p>We performed a walkthrough to confirm our understanding of the company's process and adequacy of controls relating to the loans. We applied a fully substantive approach to our audit due to the limited number of transactions performed by the company in the year ended 31 March 2025.</p> <p>We involved our valuation and modelling specialists to:</p> <ul style="list-style-type: none"> <li>○ Independently re-value the loans advanced to water companies using prices of comparable positions and other data points.</li> <li>○ Assess the appropriateness of the valuation techniques and significant assumptions used to determine the fair value of the loans.</li> <li>○ Perform corroborative calculations to understand the impact of certain key assumptions adopted by management on the loan valuation.</li> <li>○ We have performed a review of financial statements disclosures relating to financial instruments to ensure these disclosures are appropriate and in accordance with FRS 102.</li> </ul>	<p>Based on the procedures performed, we concluded that the fair value of financial instruments and the recognition of related income is fairly stated, in all material respects as at 31 March 2025 and for the year then ended, in accordance with FRS 102.</p>

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £3.3 million (2024: £3.5 million), which is 0.5% (2024: 0.5%) of total assets. We believe that total assets represent the key focus for the users of the financial statements, being bond holders who will focus more on the underlying assets that form the main source for repaying the interest and principal of the bonds issued. We therefore considered total assets to be the most appropriate basis for determination of our materiality.

During the course of our audit, we reassessed initial materiality and did not apply significant changes to the materiality calculation.

### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2024: 50%) of our planning materiality, namely £1.66m (2024: £1.75m). We have set performance materiality at this percentage based on various considerations including the risks factors identified and the adoption of a fully substantive audit approach.

### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £166k (2024: £175k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained with the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC**

- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:
  - UK Companies Act 2006
  - UK GAAP including FRS 102
- We understood how the company is complying with those frameworks by inquiring with management and directors as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We reviewed the minutes of Board meetings.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by testing all material adjustments which affect the financial statements to assess their appropriateness. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management as well as reviewing correspondence with the relevant authorities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

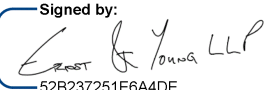
- We were appointed by the company on 29 September 2017 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 9 years, covering the years ending 31 March 2017 to 31 March 2025.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to those charged with governance.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

Signed by:  
  
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Hitesh Patel (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

Date:

29 September 2025

**ARTESIAN FINANCE II PLC****STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 March 2025**

	<b>Note</b>	<b>2025 £'000</b>	<b>2024 £'000</b>
Interest income	3	20,818	20,816
Interest expense		(20,757)	(20,757)
Net interest income		61	59
Operating expenses	4	(97)	(97)
Other operating income		59	59
Change in fair value of loans	11	(38,945)	(3,978)
Change in fair value of bonds	11	20,743	7,743
Change in fair value of swaps	11	18,123	(3,789)
<b>(LOSS) FOR THE YEAR BEFORE TAXATION</b>		(56)	(3)
Tax charge	6	(15)	(15)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		(71)	(18)

The accompanying notes from pages 17 to 26 are an integral part of these financial statements.

The results above arose wholly from continuing operations in the current and prior year.

**ARTESIAN FINANCE II PLC****STATEMENT OF FINANCIAL POSITION  
As at 31 March 2025**

	<b>Note</b>	<b>2025 £'000</b>	<b>2024 £'000</b>
<b>NON-CURRENT ASSETS</b>			
Loans to customers	7	661,464	700,409
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		597	592
Prepayments and other receivables		8	
		<u>605</u>	<u>592</u>
<b>TOTAL ASSETS</b>		<u>662,069</u>	<u>701,001</u>
<b>CURRENT LIABILITIES</b>			
Other payables	8	48	43
Tax liabilities	6	15	15
		<u>63</u>	<u>58</u>
<b>NON-CURRENT LIABILITIES</b>			
Bonds issued	9	343,075	363,818
Derivatives at fair value	11	317,961	336,084
		<u>661,036</u>	<u>699,902</u>
<b>TOTAL LIABILITIES</b>		<u>661,099</u>	<u>699,960</u>
<b>NET ASSETS</b>		<u>970</u>	<u>1,041</u>
<b>EQUITY</b>			
Share capital	10	13	13
Retained earnings		957	1,028
<b>TOTAL EQUITY</b>		<u>970</u>	<u>1,041</u>

The accompanying notes from pages 17 to 26 are an integral part of these financial statements.

These financial statements of Artesian Finance II plc, registration number 4677985, were approved and authorised for issue by the Board of Directors on 29 September 2025.

Approved by the Board of Directors and signed on behalf of the Board



Signed by Sean Peter Martin  
Director  
Date: 29 September 2025



ARTESIAN FINANCE II PLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2025

	Share capital	Retained earnings	Total
	£'000	£'000	£'000
Balance at 01 April 2023	13	1,046	1,059
Total comprehensive loss for the financial year	-	(18)	(18)
Balance at 31 March 2024	13	1,028	1,041
Total comprehensive loss for the financial year	-	(71)	(71)
Balance at 31 March 2025	13	957	970

The accompanying notes from pages 17 to 26 are an integral part of these financial statements.

**ARTESIAN FINANCE II PLC****STATEMENT OF CASH FLOWS**  
**For the year ended 31 March 2025**

	<b>Note</b>	<b>2025 £'000</b>	<b>2024 £'000</b>
<b>Operating loss before taxation</b>		(56)	(3)
Adjustments for:			
Changes in fair value of swaps	11	(18,123)	(3,789)
Changes in fair value of loans	11	38,945	3,978
Changes in fair value of bonds	11	(20,743)	(7,743)
Changes in other payables		5	-
Changes in other receivables		(8)	
<b>Net cash flows from operating activities before tax</b>		20	21
Tax paid		(15)	(10)
<b>Net cash flows from operating activities after tax</b>		5	11
<b>Net increase/(decrease) in cash and cash equivalents</b>		5	11
Cash and cash equivalents at the beginning of the year		592	581
<b>Cash and cash equivalents at the end of the year</b>		<u>597</u>	<u>592</u>

**ANALYSIS OF CHANGE IN NET DEBT**

	<b>Bonds Issued</b>	<b>Derivative Instruments</b>	<b>Net Debts</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening balance as at 01 April 2024	363,818	336,084	699,902
Cash movement	-	-	-
Non cash Movement	(20,743)	(18,123)	(38,866)
<b>Closing balance as at 31 March 2025</b>	<u>343,075</u>	<u>317,961</u>	<u>661,036</u>

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****1. ACCOUNTING POLICIES****General information**

Artesian Finance II plc (“the Company”) is a public company limited by shares incorporated and registered in England in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company’s operations and its principal activities are set out in the Strategic Report.

**Basis of accounting**

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The financial statements have been prepared on a going concern basis as explained below.

Under FRS 102, in accounting for its financial instruments a reporting entity is required to apply either:

- a) the full provisions of Section 11 “Basic Financial Instruments” and Section 12 “Other Financial Instruments” of FRS 102;
- b) the recognition and measurement provisions of International Accounting Standards 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”) and only the disclosure requirements of Sections 11 and 12 of FRS 102; or
- c) the recognition and measurement provisions of International Financial Reporting Standards (“IFRS”) 9 “Financial Instruments” (“IFRS 9”) and the disclosure requirements of Sections 11 and 12 of FRS 102.

The Company has elected to apply the recognition and measurement provisions of IAS 39 and the disclosure requirements of Sections 11 and 12 of FRS 102.

**Going Concern**

The uncertain and volatile environment, combined with fluctuating interest rates, significantly influences the broader macroeconomic landscape. This affects various factors such as business confidence, property prices, loan default rates, and consumer behaviour, all of which can negatively impact effectiveness and other related indicators. The directors acknowledge that the global macro-economic indicators and general business environment have remained uncertain and volatile in 2024. The outlook for the global economy has many uncertainties including inflation and interest rate, asset prices, energy prices, monetary and fiscal policy and trade barriers including tariffs. These economic and market conditions could be exacerbated by number of factors including instability in global financial systems, market volatility and change, fluctuation in the value of Euro, volatility in commodity prices or concerns.

In 2024, the economy continued its recovery and came out of post-COVID19 stagnation with an upswing in the first half of 2024 as household income recovered. The growth lost momentum in the second half of 2024 and the outlook remains that of moderate growth, Inflation has declined over the year, although the progress is slower than expected and inflation is likely to take longer to reach the target. As a result, rates are expected to remain higher-for-longer than previously expected. The unemployment rate increased modestly but it is underpinned by a still resilient labour market. There was emerging risk to the labour market due to higher tax burdens, but the impact is likely to be moderate. House prices were previously assumed to decline in 2024, but they performed better than expected.

The directors are closely monitoring the potential impact of global macro-economic factors on the Company’s financial results and cash flows for the business. The Company will continue to monitor the market to assess current and future developments. The directors believe that the Company is not directly impacted by the on-going conflict in Ukraine and the associated Russian sanctions and Israel-Gaza Middle East conflicts. If, as seems likely, the conflict in Ukraine and Middle East impacts economic growth in Europe, then there could be an indirect effect on the Company, but the directors anticipate the impact would be minimal and certainly no worse than the economic turbulence experienced during the COVID-19 pandemic.

The Company makes use of reasonable and supportable information to make accounting judgments and estimates. This may include information about the observable effects of the physical and transition risks of climate change, if such risks were to be relevant to the Company; however, in the Directors’ opinion, no such risks are currently relevant to the Company. Many of the effects arising from climate change will be long

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****1. ACCOUNTING POLICIES (CONTINUED)**

term in nature, with an inherent level of uncertainty and have limited effect on accounting judgments and estimates for the current period. Some physical and transition risks can manifest in the shorter term.

Further, we have considered the existence of total return swaps and our assessment of financial performance of the underlying water companies and their liquidity position, which has mitigated the uncertainties associated with global macro-economic indicators including the different ways in which this could impact the cash flows, solvency and liquidity position of the Company.

Based on this assessment, the Directors have a reasonable expectation that there is no material impact of macro-economic factors on the Company's financial instruments valuation or liquidity and the Company has adequate resources to continue in operational existence for the period to 26th September 2026, which is in excess of 12 months from when the financial statements are authorised for issue and have prepared the financial statements on a going concern basis.

**Critical accounting judgements**

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense, in particular the estimation of future cash flows on the Loans to customers and Bonds issued in order to determine the fair value of these instruments.

**Financial instruments**

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. The Company's financial instruments comprise Loans to customers, Bond liabilities, derivative financial instruments, cash and creditors, which arise directly from its operations and are part of its principal activity.

**Loans to customers**

Loans to customers were designated and are accounted for in these financial statements as financial assets 'at fair value through profit or loss' (FVTPL) with any gain or loss on re-measurement being recognised in the statement of comprehensive income. Loans to customers were designated at FVTPL to significantly reduce a measurement or recognition inconsistency that would otherwise arise. Interest earned on the Loans to customers is included in the interest income line item in the statement of comprehensive income.

**Bonds issued**

The Bonds were designated and are accounted for at FVTPL with any gain or loss on re-measurement being recognised in the statement of comprehensive income. The Bonds were designated at FVTPL to significantly reduce a measurement or recognition inconsistency that would otherwise arise. Interest incurred on the Bonds is included in the interest expense line item in the statement of comprehensive income.

**Fair valuation**

The carrying amounts of all the Company's financial instruments equate to their fair values. For the fixed rate bonds issued, observed market prices (indicative bid and ask observations) have been used to determine fair values. For other financial instruments where no market values are available, fair values have been calculated by discounting cash flows at prevailing interest rates. In the calculation of discount factors for the fixed rate and RPI linked loans and total return swaps, a spread consistent with that implied on the fixed rate bonds issued has been applied.

**Derivative Instruments**

The Company does not enter into speculative derivative contracts. Derivative financial instruments are recorded at FVTPL, with any gain or loss on re-measurement being recognised in the statement of comprehensive income. The derivative instruments are classified as held for trading.

**Revenue recognition**

Financial assets and financial liabilities are recorded at fair value. Changes in fair value are recognised in profit or loss separately from interest income and expense.

ARTESIAN FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2024

1. ACCOUNTING POLICIES (CONTINUED)

Segmental analysis

The Directors have determined that the Company has only one reportable operating segment as all the investment income arises in the United Kingdom.

Taxation

The Company has elected to be taxed under the ‘permanent’ tax regime, for securitisation companies (contained in Statutory Instrument 2006/3296), under which the Company is taxed broadly by reference to its cash profit retained by the issuer during the period and not by reference to its accounting profit.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Key sources of estimation uncertainty

The estimates and associated assumptions including credit risk are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

2. DIRECTORS AND EMPLOYEES

None of the Directors received any emoluments for their services to the Company during the year (2024: £nil).

None of the Directors have any interests in the Company as at year end (2024: £nil).

None of the Directors had any material interest in any contract of significance in relation to the business of the Company (2024: none).

The Company does not have any employees (2024: none).

3. INTEREST INCOME

	2025 £'000	2024 £'000
Interest income on loans	23,933	23,104
Interest income on swaps	(3,115)	(2,288)
	<u>20,818</u>	<u>20,816</u>

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****4. OPERATING EXPENSES**

	<b>2025</b> <b>£'000</b>	<b>2024</b> <b>£'000</b>
Administrative expenses incurred	97	97

**5. REMUNERATION OF AUDITOR**

	<b>2025</b> <b>£'000</b>	<b>2024</b> <b>£'000</b>
<b>Amounts paid or payable to auditor:</b>		
Audit of the Company's accounts:		
Charge for the year*	40	36

**6. TAXATION**

	<b>2025</b> <b>£'000</b>	<b>2024</b> <b>£'000</b>
Current tax:		
UK corporation tax at 25.00% (PY: 25.00%)	15	15
Tax on profit on ordinary activities	15	15

## Reconciliation of the tax charge

The actual tax (credit)/charge differs from the expected tax (credit)/charge computed by applying the rate of UK corporation tax rate of 25% (2024: 25%) as follows:

	<b>2025</b> <b>£'000</b>	<b>2024</b> <b>£'000</b>
Loss on ordinary activities before tax	(56)	(3)
Tax on loss on ordinary activities at standard CT rate of 25.00% (2024:25.00%)	(14)	(1)
Effects of:		
Adjustment under s14(4) SI 2006/3296	14	1
Adjustment under s14(1)(a)(ii) SI 2006/3296	15	15
Tax charge/(credit) for the period	15	15

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****TAXATION (continued)**

The Company is taxed in accordance with Statutory Instrument No. 3296 'The Taxation of Securitisation Companies Regulations 2006' which requires that tax is charged on the cash profit retained by the issuer. No other amounts are taxable. There is no deferred tax recognised or unrecognised.

On 24 May 2021 the UK Government substantively enacted an increase in the UK Corporation Tax rate from 19% to 25% with effect from 1 April 2023.

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**7. LOANS TO CUSTOMERS**

	<b>2025</b>	<b>2024</b>
	<b>£'000</b>	<b>£'000</b>
Loans to customers – fixed rate	57,060	60,517
Loans to customers – RPI indexed	604,404	639,892
	<u>661,464</u>	<u>700,409</u>
Loans falling due after more than one year	661,464	700,409
	<u>661,464</u>	<u>700,409</u>

The loan portfolio at year end has nominal values amounting to £321,500,000 (2024: £321,500,000) and comprised of five loans to three water companies, however two of the water companies are merged now. Out of these five loans, three of them have RPI index-linked principal and interest rate characteristics while the remaining two have fixed rates of interest (see Note 11). The loans are due to mature on 30 September 2033, but the borrowers have the right to make voluntary prepayments if they give no less than 45 days' written notice in accordance with the loan agreement.

**8. OTHER PAYABLES**

	<b>2025</b>	<b>2024</b>
	<b>£'000</b>	<b>£'000</b>
Other payables	<u>48</u>	<u>43</u>

**9. BONDS ISSUED**

	<b>2025</b>	<b>2024</b>
	<b>£'000</b>	<b>£'000</b>
Fixed rate bonds	<u>(343,075)</u>	<u>(363,818)</u>
Amounts falling due after more than one year*	<u>(343,075)</u>	<u>(363,818)</u>
	<u>(343,075)</u>	<u>(363,818)</u>

The Company has issued fixed rate bonds which are listed on the London Stock Exchange with a nominal value of £345,950,000 (2024: £345,950,000) under the Company's £500,000,000 bond issuance programme. The Bonds bear interest of 6% per annum with a legal maturity date of 30 September 2033. The Bonds can be redeemed early under certain conditions described in the Offering Circular.

ARTESIAN FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2025

9. BONDS ISSUED (CONTINUED)

In order to protect the Company and the bond holders in the event of a shortfall of funds available to pay amounts on the Bonds, the Company has entered into a guarantee agreement for which borrowers make the payments of premium to an insurer. The guarantee is provided by Assured Guaranty UK Limited, who are rated by S&P at AA (2024: AA), which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued.

10. SHARE CAPITAL

	2025 £'000	2024 £'000
<b>Authorised</b>		
50,000 (2024: 50,000) ordinary shares of £1 each	50	50
<b>Called up, allotted and partly paid</b>		
50,000 (2024: 50,000) ordinary shares partly paid up at 25p each	13	13

49,999 shares of the Company are held by Apex Trust Nominees No. 1 Limited as trustee on behalf of a Charitable Trust and 1 share by Apex Corporate Trustees (UK) Limited as trustee on behalf of a Charitable Trust. These shares were issued in 2003 for a cash consideration of 25p each.

11. FINANCIAL INSTRUMENTS

The Company’s financial instruments principally comprise Loans advanced to water companies, Bonds issued, total return swap contracts, cash and other items arising directly from the Company’s operations. It is, and has been throughout the year, the Company’s policy that no trading in financial instruments shall be undertaken.

Capital risk management

The Company manages its capital to enable it to continue as a going concern.

The capital structure of the Company primarily comprises issued bonds. Other sources of funding consist of equity attributable to equity holders of the parent, comprising issued share capital and retained earnings. The Company is not subject to any externally imposed capital requirements.

Credit risk

The main risk arising from the Company’s financial instruments is credit risk. The Company faces the credit risk that customers might not be able to meet their obligations as they fall due. While the Loans are secured by a fixed and floating charge over customers’ assets and their immediate holding companies, the Company considered the customers’ ability to service the Loans to be the principal factor in assessing the credit risk and the decision to lend. With respect to the five loans to UK water board companies, the Directors conclude that there are no past due receivable balances at year-end (2024: £nil). South East Water Limited is rated Baa2 (2024: Baa2), Southern Water Services Limited is rated Baa3 (2024: Baa3) and South West Water -Baa1(2024: Baa1) by Moody’s as disclosed in their latest financial statements. Rating for all the water companies is consistent as compared to prior year.

In order to protect the Company and the bond holders in the event of a shortfall of funds available to pay amounts on the Bonds, the Company has entered into a guarantee agreement for which borrowers make payments of premium to an insurer. The guarantee is provided by Assured Guaranty UK Limited, who are rated by S&P at AA (2024:AA), which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued.

In addition, the Company faces credit risk on the swap counterparties’ obligations under the agreement. The swap counterparties JP Morgan Securities Plc is rated AA- (2024: A+) and Belfius Bank SA (formerly known as Dexia Bank SA) is rated A (2024: A) by S&P, and the Directors and management will continue to monitor this exposure.



**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****11. FINANCIAL INSTRUMENTS (CONTINUED)****Credit risk (continued)**

The fixed and floating charge over the customers' assets, and their immediate holding companies, make up the primary collateral for the Loans. The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is the Statement of Financial Position amount of Loans to customers of £661,464,000 (2024: £700,409,000).

This year's amount of swaps consists of £317,961,000 (2024: £336,084,000) of derivatives liabilities.

The changes in fair value of the designated Loans and Bonds attributable to changes in credit risk have been calculated as a difference between their fair value determined as described in Note 1 and present value of future expected cash flows discounted using 6 month GBP Libor zero coupon curve.

**Financial assets at fair value through profit or loss**

	<b>2025</b> <b>£'000</b>	<b>2024</b> <b>£'000</b>
Cumulative change in fair value of the loans attributable to changes in credit risk	(56,238)	(31,670)
Change during the year in fair value of the loans attributable to changes in credit risk	(24,568)	24,384

**Financial liabilities at fair value through profit or loss**

	<b>2025</b> <b>£'000</b>	<b>2024</b> <b>£'000</b>
Cumulative change in fair value of the fixed rate bonds attributable to changes in credit risk	22,665	10,204
Change during the year in fair value of the fixed rate bonds attributable to changes in credit risk	12,462	(11,219)

**Liquidity risk**

Funding for purchase of the loan portfolio was obtained through issuance of fixed rate bonds to the market. The Company has entered into total return swaps to hedge the difference between amounts received on the loans to customers and amounts payable on the Bonds. In order to ensure that the Company has sufficient cash at maturity to redeem the Bonds, the swaps pay any difference between the principal repayment from the borrower and the total amount due to the bondholders.

The Company has in place a guarantee to ensure that sufficient liquidity is maintained to meet the obligations on the Bonds. As such if the Company faces a shortfall in cash resources to pay interest or principal on the Bonds, the bondholders would receive the required amount from the guarantor.

The table below reflects the undiscounted contractual cash flows of financial liabilities at the Statement of Financial Position date.

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****11. FINANCIAL INSTRUMENTS (CONTINUED)****Liquidity risk (continued)**

<b>As at 31 March 2025</b>	<b>Carrying amount £'000</b>	<b>Contractual cash flows £'000</b>	<b>0-3 months £'000</b>	<b>3 months-1year £'000</b>	<b>1-5 years £'000</b>	<b>Over 5 years £'000</b>
<b><u>Non-derivative financial Liabilities</u></b>						
Bonds issued	(343,075)	(522,385)	-	(20,757)	(83,028)	(418,600)
	<u>(343,075)</u>	<u>(522,385)</u>	<u>-</u>	<u>(20,757)</u>	<u>(83,028)</u>	<u>(418,600)</u>
<b><u>Derivative financial liabilities</u></b>						
Total return swaps (net)	(317,961)	(517,335)	-	(3,932)	(23,681)	(489,723)
Total	<u>(661,036)</u>	<u>(1,039,720)</u>	<u>-</u>	<u>(24,689)</u>	<u>(106,709)</u>	<u>(908,323)</u>
<b>As at 31 March 2024</b>	<b>Carrying amount £'000</b>	<b>Contractual cash flows £'000</b>	<b>0-3 months £'000</b>	<b>3 months-1year £'000</b>	<b>1-5 years £'000</b>	<b>Over 5 years £'000</b>
<b><u>Non-derivative financial Liabilities</u></b>						
Bonds issued	(363,818)	(543,142)	-	(20,757)	(83,028)	(439,357)
	<u>(363,818)</u>	<u>(543,142)</u>	<u>-</u>	<u>(20,757)</u>	<u>(83,028)</u>	<u>(439,357)</u>
<b><u>Derivative financial liabilities</u></b>						
Total return swaps (net)	(336,084)	(538,705)	-	(3,118)	(20,708)	(514,879)
Total	<u>(699,902)</u>	<u>(1,081,847)</u>	<u>-</u>	<u>(23,875)</u>	<u>(103,736)</u>	<u>(954,236)</u>

The table below reflects the discounted contractual cash flows of financial derivatives at the Statement of Financial Position date.

	<b>2025 £'000</b>	<b>2024 £'000</b>
Total return swaps	<u>(317,961)</u>	<u>(336,084)</u>
Amounts falling due after more than one year	<u>(317,961)</u>	<u>(336,084)</u>

**Interest rate risk**

The Company finances its operations through the issue of bonds at a fixed rate of 6.00% per annum (p.a.). The loans to South West Water Limited carry a fixed rate of interest of 6.01% p.a. and 3.083% p.a., adjusted for the UK RPI indexation on a semi-annual basis. The loans to Southern Water Services Limited and South East Water Limited carry a fixed rate of interest of 4.076% p.a. and 2.801% p.a. respectively, adjusted for the UK RPI indexation on a semi-annual basis. However, the Company has entered into total return swaps in which the Company exchanges the indexation-linked interest it receives on the loans for the fixed coupon amount

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 March 2025****11. FINANCIAL INSTRUMENTS (CONTINUED)**

payable on the Bonds; hence no significant net interest rate risk exists. As such, no sensitivity analysis has been presented. The loans and bonds mature on 30 September 2033.

**Foreign exchange risk**

All transactions and financial instruments are denominated in sterling and consequently no currency exposure arises.

**Fair values of financial assets and financial liabilities**

The carrying amounts of all the Company's financial instruments equate to their fair values. Fair values have been determined using the methods described in Note 1.

	Opening fair value £'000	Cash Movement £'000	Movement in fair value £'000	Closing fair value £'000
Cash and cash equivalents	592	5	-	597
Loans to customers – fixed rate	60,517	-	(3,457)	57,060
Loans to customers – RPI indexed	639,892	-	(35,488)	604,404
Fixed rate bonds	(363,818)	-	20,743	(343,075)
Total return swaps	(336,084)	-	18,123	(317,961)
	<u>1,099</u>	<u>5</u>	<u>(79)</u>	<u>1,025</u>

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

There have been no transfers between Level 1 and 2 during the year.

**ARTESIAN FINANCE II PLC****NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 March 2025****11. FINANCIAL INSTRUMENTS (CONTINUED)****Fair values of financial assets and financial liabilities (continued)****As at 31 March 2025**

	<b>Total £'000</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>
Financial assets				
Loans to customers – fixed rate	57,060	-	57,060	-
Loans to customers – RPI indexed	604,404	-	604,404	-
	<u>661,464</u>	<u>-</u>	<u>661,464</u>	<u>-</u>
Financial liabilities				
Fixed rate bonds	343,075	-	343,075	-
Total return swaps	317,961	-	317,961	-
	<u>661,036</u>	<u>-</u>	<u>661,036</u>	<u>-</u>

**As at 31 March 2024**

	<b>Total £'000</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>
Financial assets				
Loans to customers – fixed rate	60,517	-	60,517	-
Loans to customers – RPI indexed	639,892	-	639,892	-
	<u>700,409</u>	<u>-</u>	<u>704,409</u>	<u>-</u>
Financial liabilities				
Fixed rate bonds	363,818	-	363,818	-
Total return swaps	336,084	-	336,084	-
	<u>699,902</u>	<u>-</u>	<u>699,902</u>	<u>-</u>

**12. RELATED PARTY TRANSACTIONS**

Apex Corporate Trustee (UK) Limited is the corporate service provider for the Company. During the year, fees incurred for these services were £23,040 (2024: £26,400) and an amount of £nil (2024: £nil) was payable at year end. The Company enters into transactions with the service provider, they include the payment of taxes including UK corporation tax and Value Added Tax.

**13. ULTIMATE PARENT AND CONTROLLING PARTY**

The management determined that the Company has no ultimate controlling party. As described in Note 10, the shares of the Company are held by Apex Trust Nominees No. 1 Limited and Apex Corporate Trustees (UK) Limited as trustees under the terms of a trust declared ultimately for charitable purposes.

**14. SUBSEQUENT EVENTS**

There have been no subsequent events post the Statement of Financial Position date.