

Company Registered No: 4677985

ARTESIAN FINANCE II PLC

**ANNUAL REPORT AND FINANCIAL STATEMENT
For the year ended 31 March 2026**

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026

CONTENTS

Page

Officers and professional advisers	1
Strategic report	2-3
Directors' report	4-5
Directors' responsibilities statement	6
Independent auditor's report	7-12
Statement of comprehensive income	13
Statement of financial position	14
Statement of changes in equity	15
Statement of cash flows	16
Notes to the financial statements	17-26

ARTESIAN FINANCE II PLC

4677985

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

SECRETARY

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

REGISTERED OFFICE

4th Floor
140 Aldersgate Street
London
United Kingdom
EC1A 4HY

BANKERS

NatWest Markets plc (formerly known as The Royal Bank of Scotland plc)
Corporate Banking
5th Floor
250 Bishopsgate
United Kingdom
London
EC2M 4AA

AUDITOR

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

ARTESIAN FINANCE II PLC

4677985

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026**STRATEGIC REPORT**

The “Directors” present their strategic report for Artesian Finance II plc (“the Company”) for the year ended 31 March 2026.

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 (2025: £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 increase of these assets is £34,965,000 (2025 decrease: £38,945,000); offset by a net fair value decrease of the liabilities of £34,994,000 (2025 increase: £38,866,000). Total assets are the key performance indicator for the Company. The total assets for 2026 are £697,135,000 (2025: £662,069,000).

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 2026. 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 a number of factors including instability in global financial systems, market volatility and change, fluctuation in the value of sterling pound, volatility in commodity prices or concerns.

The directors acknowledge that the global macro-economic indicators and general business environment have remained challenging both in 2025 and 2026, marked by continued inflationary pressures, supply chain disruptions, and rising geoeconomic tensions which pose significant challenges to an underlying borrower to whom the Company has exposure. The Directors have considered the latest geopolitical events, in particular the ongoing conflict in Iran and the Middle East and have assessed that there would be no significant impact on the Company's financial statements at this time but acknowledge that the conflict creates future uncertainty with regards to the potential impact on the global macroeconomic environment.

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 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 macroeconomic 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 30 June 2027, 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.

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****STRATEGIC REPORT (Continued)****PRINCIPAL RISKS AND UNCERTAINTIES (Continued)**

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 (2025: 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 June 2026

ARTESIAN FINANCE II PLC

4677985

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026**DIRECTOR'S REPORT**

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 March 2026.

RESULTS AND DIVIDENDS

The results for the year and the state of the Company's affairs as at 31 March 2026 are set out in the accompanying financial statements. The Directors do not recommend the payment of a dividend (2025: 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 (2025: 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

PricewaterhouseCoopers LLP ("PwC") was appointed as auditor at the NatWest Group plc Annual General Meeting in April 2026 and is appointed as NatWest Group's auditor for the financial period ending 31 December 2026. This follows the completion of a competitive tender process, overseen by the Group Audit Committee. Ernst & Young LLP ("EY") has been the Group's auditor since 2016 and is currently undertaking the audit of the Company for the financial year ended 31 March 2026. This will be EY's last period of audit as they have not been reappointed as auditors. NatWest Group's management will work with EY & PwC to enable a smooth transition.

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 £988,000 (2025: £970,000). Currently the long-term assets are funded by long-term fixed rate bonds.

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****DIRECTORS' REPORT (CONTINUED)****GOING CONCERN (CONTINUED)**

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 (2025: AA).

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 30 June 2027, 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
Apex Corporate Services (UK) Limited (Director)
Date: 29 June 2026

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****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 Directors Report and financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. 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 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
Apex Corporate Services (UK) Limited (Director)
Date: 29 June 2026

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 2026 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 2026 and of its profit 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 29 June 2027, 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 £3.5m 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 risks 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.

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.

Risk	Our response to the risk	Key observations communicated to those charged with governance
Estimation uncertainty with respect to valuation of the loan portfolio		

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

Risk	Our response to the risk	Key observations communicated to those charged with governance
<p>As per Note 7 to the financial statements, at 31 March 2026 the company reported total loans of £696m (2025: £661m) 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 2026.</p> <p>We involved our valuation and modelling specialists to:</p> <ul style="list-style-type: none"> ○ Independently re-value the loans advanced to water companies using prices of comparable positions and other data points. ○ Assess the appropriateness of the valuation techniques and significant assumptions used to determine the fair value of the loans. ○ Perform corroborative calculations to understand the impact of certain key assumptions adopted by management on the loan valuation. ○ 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. 	<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 2026 and for the year then ended, in accordance with FRS 102.</p>

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.

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

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 £3.5 million (2025: £3.3 million), which is 0.5% (2025: 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% (2025: 50%) of our planning materiality, namely £1.73m (2025: £1.66m). 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 £172k (2025: £166k), 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

- 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.
- 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.

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 2026.

- 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:

52B237251E6A4DE...

Hitesh Patel (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 29 June 2026

ARTESIAN FINANCE II PLC

4677985

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026

STATEMENT OF COMPREHENSIVE INCOME

For the Financial year ended 31 March 2026

	Notes	2026 £'000	2025 £'000
Income from continuing operations			
Interest income	3	20,821	20,818
Interest expense		(20,757)	(20,757)
Net interest income		64	61
Operating expenses	4	(127)	(97)
Other operating income		126	59
Change in fair value of loans	11	34,965	(38,945)
Change in fair value of bonds	11	(4,497)	20,743
Change in fair value of swaps	11	(30,497)	18,123
Profit/(Loss) for the year before taxation		34	(56)
Tax charge	6	(16)	(15)
Total comprehensive income/(loss) for the year		18	(71)

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

4677985

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026

STATEMENT OF FINANCIAL POSITION


As at 31 March 2026

	Notes	2026 £'000	2025 £'000
Non-current assets			
Loans to customers	7	696,429	661,464
Current assets			
Cash and cash equivalents		706	597
Prepayments and other receivables		-	8
		706	605
Total assets		697,135	662,069
Current liabilities			
Other payables	8	101	48
Tax liabilities	6	16	15
		117	63
Non-current liabilities			
Bonds issued	9	347,572	343,075
Derivatives at fair value	11	348,458	317,961
		696,030	661,036
Total liabilities		696,147	661,099
Net assets		988	970
Equity			
Share capital	10	13	13
Retained earnings		975	957
Total shareholders' equity		988	970
Shareholders' funds		988	970

The accompanying notes from pages 17 to 26 are an integral part of the statutory 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 June 2026.

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


Signed by Sean Peter Martin
Director
Date: 29 June 2026

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2026**

	Share capital	Retained	
	£'000	earnings	Total
		£'000	£'000
Balance as at 1 April 2024	13	1,028	1041
Total comprehensive loss for the year	-	(71)	(71)
Balance as at 31 March 2025	13	957	970
Total comprehensive income for the year	-	18	18
Balance as at 31 March 2026	13	975	988

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

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****STATEMENT OF CASH FLOWS****For the year ended 31 March 2026**

	2026	2025
	£'000	£'000
Cash flow from operating activities.		
Operating profit/(loss) before tax	34	(56)
Adjustments for:		
Changes in fair value of swaps	30,497	(18,123)
Changes in fair value of loans	(34,965)	38,945
Changes in fair value of bonds	4,497	(20,743)
Changes in other payables	53	5
Changes in other receivables	8	(8)
Net cash flows from operating activities before tax	124	20
Tax paid	(15)	(15)
Net cash flows from operating activities after tax	109	5
Net increase in cash and cash equivalents	109	5
Cash and cash equivalents at the beginning of the year	597	592
Cash and cash equivalents at the end of the year	706	597

ANALYSIS OF CHANGE IN NET DEBT	Bonds issued	Derivative instruments	Net debts
	£'000	£'000	£'000
Opening balance as at 01 April 2025	343,075	317,961	661,036
Cash movement	4,497	30,497	34,994
Closing balance as at 31 March 2026	347,572	348,458	696,030

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****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 high inflation environment alongside rapidly rising interest rates and supply chain disruption are presenting significant headwinds for some businesses and consumers. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2026. The directors acknowledge that the global macro-economic indicators and general business environment have remained uncertain in 2025 and 2026. The outlook for the global economy has many uncertainties including high inflation, rising interest rates and higher cost-of-living and the impact of armed conflict (in particular the Russian invasion of Ukraine and Israel-Iran Middle East conflicts). Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to businesses and borrowers to whom the Company has exposure. The principal risks facing the Company are liquidity risk, interest rate risk and credit risk. These risks have been monitored on an ongoing basis during the period and the Company has policies in place to mitigate these risks to enable it to continue as a going concern.

The directors are closely monitoring the potential impact 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 ongoing conflict in Ukraine and the associated Russian sanctions and Israel-Iran 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.

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 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.

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES (Continued)****Going concern (Continued)**

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 30th June 2027, 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 in relation to the recoverability of assets and estimates of future UK retail price index levels of the Loans to customers and Bonds issued in order to determine the fair value of these instruments.

The selection of an appropriate discount rate for fair value measurement involves judgement, including consideration of market rates and credit risk. While the approach is consistent with market practice, changes in assumptions could impact the resulting valuations.

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.

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****1. ACCOUNTING POLICIES (Continued)****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.

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 (2025: nil).

None of the directors have any interests in the Company as at year end (2025: nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2025: none).

The Company does not have any employees (2025: none).

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****3. INTEREST INCOME**

	2026	2025
	£'000	£'000
Interest income on loans	24,800	23,933
Interest payment on swaps	(3,979)	(3,115)
	20,821	20,818

4. OPERATING EXPENSES

	2026	2025
	£'000	£'000
Administrative expenses incurred	127	97

5. REMUNERATION OF AUDITOR

	2026	2025
	£'000	£'000
Amount paid or payable to auditor:		
Audit of the company's accounts:		
Charge for the year	43	40
	43	40

6. TAX

	2026	2025
	£'000	£'000
Current taxation		
UK corporation tax at 25% (2025: 25%)	16	15
Tax charge for the year	16	15

Reconciliation of the tax charge.

The actual tax charge differs from the expected tax charge/(credit) computed by applying the standard rate of UK corporation tax of 25% (2025: 25%) as follows:

	2026	2025
	£'000	£'000
Profit/(loss) on ordinary activities before tax	34	(56)
Expected tax charge/(credit) on profit/(loss) on ordinary activities at standard CT rate of 25% (2025:25%)	8	(14)
Effects of:		
Adjustment under s14(4) SI 2006/3296	(8)	14
Adjustment under s14(1)(a)(ii) SI 2006/3296	16	15
Actual tax charge for the year	16	15

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.

The rate of tax enacted at the balance sheet date was 25% (2025: 25%).

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****7. LOANS TO CUSTOMERS**

	2026	2025
	£'000	£'000
Loans to customers - fixed rate	57,803	57,060
Loans to customers - RPI indexed	638,626	604,404
	696,429	661,464
Loans falling due after more than one year	696,429	661,464

The loan portfolio at year end has nominal values amounting to £321,500,000 (2025: £321,500,000) and comprised of five loans to three water companies, however two of the water companies were merged in 2023. Out of these five loans, three of them have RPI index-linked principal and interest rate characteristics while the remaining one has 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

	2026	2025
	£'000	£'000
Other Payables	101	48

9. BONDS ISSUED

	2026	2025
	£'000	£'000
Fixed rate bonds	347,572	(343,075)
Amounts falling due within one year	19,869	19,840
Amounts falling due after more than one year	327,703	323,235
	347,572	343,075

The Company has issued fixed rate bonds which are listed on the London Stock Exchange with a nominal value of £345,950,000 (2025: £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.

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 (2025: AA), which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued.

10. SHARE CAPITAL

	2026	2025
	£'000	£'000
Authorised 50,000 (2025: 50,000) ordinary shares of £1 each	50	50
Called up, allotted and partly paid 50,000 (2025: 50,000) ordinary shares partly paid up at 25p each	13	13

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****10. SHARE CAPITAL (CONTINUED)**

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 (2025: nil). South East Water Limited is rated Ba1 (2025: Baa2), Southern Water Services Limited is rated Ba1 (2025: Baa3) and South West Water -Baa1(2025: -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 (2025: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- (2025: AA-) and Belfius Bank SA (formerly known as Dexia Bank SA) is rated A (2025: A) by S&P.

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 £696,429,000 (2025: £661,464,000).

This year's amount of swaps consists of £348,458,000 (2025: £317,961,000) 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 SONIA zero coupon curve.

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****11. FINANCIAL INSTRUMENTS (CONTINUED)****Financial assets at fair value through profit or loss**

	2026	2025
	£'000	£'000
Cumulative change in fair value of the loans attributable to changes in credit risk	(30,274)	(56,238)
Change during the year in fair value of the loans attributable to changes in credit risk	25,964	(24,568)

Financial liabilities at fair value through profit or loss

	2026	2025
	£'000	£'000
Cumulative change in fair value of the fixed rate bonds attributable to changes in credit risk	9,457	22,665
Change during the year in fair value of the fixed rate bonds attributable to changes in credit risk	(13,209)	12,462

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

4677985

ANNUAL REPORT AND FINANCIAL STATEMENTS 2026

NOTES TO THE FINANCIAL STATEMENTS

11. FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 March 2026	Carrying amount £'000	Contractual cash flows £'000	0-3 months £'000	3 months- 1 year £'000	1-5 years £'000	5 years and over £'000
<u>Non-derivative financial liabilities</u>						
Bonds issued	(347,572)	(501,628)	-	(20,757)	(83,028)	(397,843)
	<u>(347,572)</u>	<u>(501,628)</u>	<u>-</u>	<u>(20,757)</u>	<u>(83,028)</u>	<u>(397,843)</u>
<u>Derivative financial liabilities</u>						
Total return swaps (net)	(348,458)	(528,340)	-	(4,784)	(28,433)	(495,124)
Total	<u>(696,030)</u>	<u>(1,029,967)</u>	<u>-</u>	<u>(25,541)</u>	<u>(111,461)</u>	<u>(892,967)</u>

As at 31 March 2025	Carrying amount £'000	Contractual cash flows £'000	0-3 months £'000	3 months- 1 year £'000	1-5 years £'000	5 years and over £'000
<u>Non-derivative financial liabilities</u>						
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>
<u>Derivative financial liabilities</u>						
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>

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

	2026 £'000	2025 £'000
Total returns swaps	<u>(348,458)</u>	<u>(317,961)</u>
Amounts falling due within one year	4,572	3,647
Amounts falling due after more than one year	<u>343,886</u>	<u>314,314</u>
	<u>348,458</u>	<u>317,961</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 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.

ARTESIAN FINANCE II PLC**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****11. FINANCIAL INSTRUMENTS (CONTINUED)****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 in movement £'000	fair value £'000	Closing fair value £'000
Cash and cash equivalents	597	109	-	706
Loans to customers - fixed rate	57,059	-	744	57,803
Loans to customers - RPI indexed	604,405	-	34,221	638,626
Fixed rate bonds	(343,075)	-	(4,497)	(347,572)
Total return swaps	(317,961)	-	(30,497)	(348,458)
	<u>1,025</u>	<u>109</u>	<u>(29)</u>	<u>1,105</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:

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- b) 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
- c) 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**4677985****ANNUAL REPORT AND FINANCIAL STATEMENTS 2026****NOTES TO THE FINANCIAL STATEMENTS****11. FINANCIAL INSTRUMENTS (CONTINUED)****As at 31 March 2026**

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
Financial assets				
Loans to customers - fixed rate	57,803	-	57,803	-
Loans to customers - RPI indexed	638,626	-	638,626	-
	<u>696,429</u>	<u>-</u>	<u>696,429</u>	<u>-</u>
Financial liabilities				
Fixed rate bonds	347,572	-	347,572	-
Total return swaps	348,458	-	348,458	-
	<u>696,030</u>	<u>-</u>	<u>696,030</u>	<u>-</u>

As at 31 March 2025

	Total	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000
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>

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 £23,398 (2025: £23,040) and an amount of nil (2025: 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 UNDERTAKING 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. POST BALANCE SHEET EVENT

There have been no subsequent events after the statement of financial position date.