

**Company Registration No. 4369065**

**ARTESIAN FINANCE PLC**

**Annual Report and Financial Statements**

For the year ended 30 September 2024

**ARTESIAN FINANCE PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**

OFFICERS AND PROFESSIONAL ADVISERS	1
STRATEGIC REPORT	2
DIRECTORS' REPORT	4
DIRECTORS' RESPONSIBILITIES STATEMENT	6
INDEPENDENT AUDITOR'S REPORT	7
STATEMENT OF COMPREHENSIVE INCOME	15
STATEMENT OF FINANCIAL POSITION	16
STATEMENT OF CHANGES IN EQUITY	17
STATEMENT OF CASH FLOWS	18
NOTES TO THE FINANCIAL STATEMENTS	19

**ARTESIAN FINANCE PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**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  
EC1A 4HY  
United Kingdom

**REGISTERED OFFICE**

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

**BANKERS**

The Royal Bank of Scotland Plc  
36 St Andrew Square  
Edinburgh  
EH2 2YB

**AUDITOR**

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

## ARTESIAN FINANCE PLC

### STRATEGIC REPORT

The Directors present the strategic report of Artesian Finance plc (the “Company”) for the year ended 30 September 2024.

#### ACTIVITIES

The principal activity of the Company is to hold loans advanced to water companies, namely, Severn Trent Water Limited (7.23%), Portsmouth Water Limited (13.74%), South East Water Limited (27.89%), SW (Finance) II Limited (32.33%) and South West Water Limited (18.82%).

#### REVIEW OF DEVELOPMENTS

The Company is authorised to issue loans and bonds up to £750,000,000 (2023: £750,000,000). The principal balances of the issued loans and bonds as at 30 September 2024 are £484,093,710 (2023: £484,093,710) and £473,028,000 (2023: £473,028,000) respectively. The Company has no intention to change the business activities in the future.

#### RESULTS AND DIVIDENDS

The profit after tax of the Company for the year amounted to £77,000 (2023: £34,000) and was transferred to reserves. The Directors do not recommend the payment of a dividend (2023: £nil).

#### BUSINESS REVIEW

The loan portfolio of the Company consists of index-linked loans which are funded by index-linked bonds. The loans are held at amortised cost of £1,071,805,000 (2023: £1,039,661,000) and that of the bonds are £1,073,570,000 (2023: £1,041,272,000). A total return swap is held by the Company to hedge the mismatch in timing of cash flows between a bond issued and a loan advanced in December 2002. Total assets are a key performance indicator for the Company. The total assets for 2024 are £1,075,033,000 (2023: £1,042,607,000). The interest rates on the loans to the water companies are set such that the Company makes a profit of one basis point per annum. The net interest income for 2024 is £16,000 (2023: £19,000). The movements are primarily on account of a change in EIR due to a change in the retail price index (RPI) forecast. No impairment indicators have been noted on the customer loans and therefore £nil provision has been recognised (2023: £nil).

#### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks facing the Company are credit risk, liquidity risk and interest rate risk. These risks have been monitored on an ongoing basis during the year and the Company has policies in place to mitigate these risks to enable it to continue as a going concern. Refer to note 14 of the financial statements for details.

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.

The Directors acknowledge that the global macro-economic indicators and general business environment have remained challenging both in 2023 and 2024, marked by continued inflationary pressures, supply chain disruptions, and rising geoeconomic tensions remain to pose significant challenges to an underlying borrower to whom the Company has exposure.

The Company’s assets are comprised of loans to UK incorporated water companies, which are linked to listed index-linked bonds issued by the Company. The most likely expected financial impact is in respect of the loans advanced by the Company. This impact is not expected to be significant given that a guarantee is provided by Assured Guaranty UK Limited, which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued.

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 31 March 2026, which is in excess of 12 months from when the financial statements are authorised for issue.

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

## **ARTESIAN FINANCE PLC**

### **STRATEGIC REPORT (CONTINUED)**

#### **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. While the loans are secured by a fixed and floating charge over the borrowers' assets, the Company considered the borrowers' ability to service the loans to be the principal factor in assessing credit risk and the decision to lend.

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. The water companies are rated by rating agencies for current year as "Severn Trent Water Limited – A3, Portsmouth Water Limited-Baa2 , South East Water Limited- Baa2, SW (Finance) II Limited- Baa3 and South West Water Limited – Baa1". Rating for all the water companies is consistent as compared to prior year except for Severn Trent Water Limited rated as Baa1.

#### **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 (see note 9) 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. The Company finances its operations through the issue of bonds at a fixed rate of 3.625% p.a. Six of the loans advanced to water companies carry a fixed rate of interest of 3.635% p.a. The remaining loan advanced carries a fixed rate of interest of 3.692% p.a.

#### **Directors Duties**

Section 172(1) of the Companies Act 2006 (Section 172) is one of the statutory duties that directors have and requires them to promote the success of the Company for the benefit of shareholders as a whole while taking into account the interests of other stakeholders and, in so doing, have regard to the matters set out in Section 172(1)(a) to (f). These include the long term consequences of decisions, colleague interests, the need to foster the Company's business relationships with suppliers, customers and others, the impact on community and the environment and the Company's reputation.

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 are aware and understand the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018.

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



Sean Peter Martin

Director

Date: 19 March 2025

**ARTESIAN FINANCE PLC**

**DIRECTORS’ REPORT**

The Directors present their annual directors’ report and the audited financial statements of the Company for the year ended 30 September 2024.

**CHANGE OF REGISTERED OFFICE ADDRESS**

The registered office address of the Company changed from 6th Floor, 125 London Wall, London, EC2Y 5AS, United Kingdom to 4th Floor, 140 Aldersgate Street, London, EC1A 4HY, United Kingdom with effect from 18 November 2024.

**RESULTS AND DIVIDEND**

No dividend was declared or paid from the Company during the year (2023: £nil) and the Directors do not propose a final dividend (2023: £nil).

**DIRECTORS**

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1.

From 1 October 2023 to date, the following changes have taken place:

Director	Appointed	Resigned
Colin Benford	-	31 January 2024
Sean Peter Martin	31 January 2024	-

**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 page 2. In addition, note 14 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 year 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 £1,350,000 (2023: £1,273,000). Currently the long-term assets are funded by long-term fixed index-linked bonds.

After making enquiries and considering the uncertainties set out on page 2, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the period to 31 March 2026, which is in excess of 12 months from when the financial statements are authorised for issue. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

**ARTESIAN FINANCE PLC**

**DIRECTORS' REPORT (CONTINUED)**

**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.



Sean Peter Martin

Director

Date: 19 March 2025

## **ARTESIAN FINANCE 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



Sean Peter Martin

Director

Date: 19 March 2025



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

## **Opinion**

We have audited the financial statements of Artesian Finance Plc for the year ended 30 September 2024 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and the related notes 1 to 17 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 30 September 2024 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 risk of the company, with the bonds issued being collateralised by an underlying loan to a water company, 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 issued 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 a period to 31 March 2026.

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.

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

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>The calculation of the Effective Interest Rate (EIR) on loans advanced and bonds issued is subject to risk of management override and depends on management's estimate of the future retail price index (RPI)</li> <li>Estimation uncertainty with respect to impairment losses on loans advanced</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>Overall materiality of £10.7m which represents 1% of Total assets.</li> </ul>

## 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, including controls 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 the 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. 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. As part of this evaluation, we performed our own risk 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.

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.

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

**The calculation of the Effective Interest Rate (EIR) on loans advanced and bonds issued is subject to risk of management override and depends on management's estimate of the future retail price index (RPI).**

Risk	Our response to the risk
<p>Refer to Accounting policies (page 19); Note 5 and Note 9 of the Financial Statements (page 22 and page 24).</p> <p>The calculation of the effective interest rate (EIR) on the loans advanced requires a forecast of future retail price index (RPI) movements. The underlying forecast methodology is subjective. If the methodology is not appropriate or applied incorrectly, this would lead to a risk of incorrect revenue recognition.</p> <p>Our assessment of the risk associated with this issue has not changed compared to the previous year.</p> <ul style="list-style-type: none"> <li>Loans advanced to water companies (£1,072m as at 30 September 2024 and £1,040m as at 30 September 2023, as per Note 1 on page 19, and Note 5 on page 22) with interest income accrued (£69m for the year ended 30 September 2024 and £69m for the year ended 30 September 2023, as per Note 5 on page 22).</li> <li>Bonds issued (£1,074m as at 30 September 2024 and £1,041m as at 30 September 2023, as per Note 1 on page 19, and Note 9 on page 24) with interest expense accrued (£69m for the year ended 30 September 2024 and £69m for the year ended 30 September 2023, as per Note 9 on page 24).</li> </ul>	<p>We performed a walkthrough to confirm our understanding of the Company's process and controls in respect of calculating EIR. However, we applied a fully substantive approach to our audit due to the limited number of active transactions in the Company as at 30 September 2024.</p> <p>We involved our valuation specialists to help generate an independent RPI forecast from third party market information.</p> <p>We re-calculated the EIR interest income and interest expense for all loans in the portfolio using this independent inflation rate forecast and compared it with management's calculation.</p>
<p><b>Key observations communicated to those charged with governance</b></p> <p>We are satisfied that the EIR interest income and expense in respect of the loan and bond portfolio are fairly stated in all material respects and in accordance with FRS 102.</p>	

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

Estimation uncertainty with respect to impairment losses on loans advanced	
Risk	Our response to the risk
<p>Refer to accounting policies (page 19); and Note 5 of the Financial Statements (page 22).</p> <p>We consider the risk of management not identifying indicators of impairment in respect of the loan portfolio to Water companies as a significant risk.</p> <p>Given the size of the loans in relation to materiality, any possible indicators of impairment (e.g. significant deterioration in counterparty credit score) would likely lead to a material provision. Management did not identify any indicators of impairment and have not recognised any impairment expense for the year ended 30 September 2024.</p> <p>Our assessment of the risk associated with this issue has not changed compared to the previous year.</p> <ul style="list-style-type: none"> <li>Loans advanced to water companies (£1,072m as at 30 September 2024 and £1,040m as at 30 September 2023, as per Note 1 on page 19, and Note 5 on page 22) with interest income accrued (£69m for the year ended 30 September 2024 and £69m for the year ended 30 September 2023, as per Note 5 on page 22).</li> </ul>	<p>We performed a walkthrough to confirm our understanding of the Company's process and controls in respect of the impairment provision assessment. However, we applied a fully substantive approach as at 30 September 2024:</p> <p>We performed the following procedures as part of our evaluation:</p> <ul style="list-style-type: none"> <li>Reviewed and challenged management's impairment assessment</li> <li>Independently considered any loss indicators present for the loans to water companies in the portfolio.</li> <li>Inspected external credit ratings and issued annual reports of the borrower</li> <li>Inspected bank statements to identify any missed interest payments from a loan counterparty</li> <li>Inspected loan agreement to identify the existence of significant covenants and assessed whether those covenants were in breach.</li> </ul> <p>Inquired with management about subsequent events impacting the financial positions which could provide indicator of impairment at year end.</p>
Key observations communicated to those charged with governance	
We are satisfied that there were no additional impairments identified, in accordance with FRS 102.	

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE 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 £10.7 million (2023: £10.4 million), which is 1% (2023: 1%) of total assets. We believe that total assets represent the key focus for the users of the financial statements, being the 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 75% (2023: 75%) of our planning materiality, namely £8.1m (2023: £7.8m). We have set performance materiality at this percentage based on various considerations including the risk factors identified.

### **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 £538k (2023: £521k), 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.

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

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

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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
- 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.

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

### **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.

- 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
  - Tax legislation (governed by HM Revenue and Customs)
  - UK GAAP including FRS 102
- We understood how Artesian Finance PLC 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 the Board Committee meetings.
- 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**

- Following the recommendation from those charged with governance we were appointed by the company on 30 January 2017 to audit the financial statements for the year ending 30 September 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 30 September 2016 to 30 September 2024.
- 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.

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

### 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:  
  
9B78D4F77A1A406...

James Hitchings

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

London

Date:

20 March 2025



**ARTESIAN FINANCE PLC****STATEMENT OF COMPREHENSIVE INCOME****For the year ended 30 September 2024**

	<b>Notes</b>	<b>2024 £'000</b>	<b>2023 £'000</b>
Interest income	10	69,413	69,457
Interest expense	11	(69,397)	(69,438)
<b>Net interest income</b>		<b>16</b>	<b>19</b>
Other operating income		59	59
Other operating expenses		(101)	(102)
Fair value movements on swap contract	6	128	78
<b>Profit before tax</b>		<b>102</b>	<b>54</b>
Taxation	7	(25)	(20)
<b>Profit after tax and total comprehensive income for the year</b>		<b>77</b>	<b>34</b>

The accompanying notes from page 19 to 30 are an integral part of these financial statements.

The results above arose wholly from continuing operations in the current and prior year, and there is no other comprehensive income to be disclosed.

**ARTESIAN FINANCE PLC****STATEMENT OF FINANCIAL POSITION****As at 30 September 2024**

	<b>Notes</b>	<b>2024 £'000</b>	<b>2023 £'000</b>
<b>Non-current assets</b>			
Loans advanced	5	1,071,805	1,039,661
Swap contracts held at fair value	6	52	73
<b>Total non-current assets</b>		<u>1,071,857</u>	<u>1,039,734</u>
<b>Current assets</b>			
Cash and cash equivalent	4	<u>3,176</u>	<u>2,873</u>
<b>Total current assets</b>		<u>3,176</u>	<u>2,873</u>
<b>Total assets</b>		<u><u>1,075,033</u></u>	<u><u>1,042,607</u></u>
<b>Current liabilities</b>			
Payables	8	(88)	(42)
Current tax liabilities		(25)	(20)
<b>Total current liabilities</b>		<u>(113)</u>	<u>(62)</u>
<b>Non-current liabilities</b>			
Interest bearing liabilities	9	(1,073,570)	(1,041,272)
<b>Total non-current liabilities</b>		<u>(1,073,570)</u>	<u>(1,041,272)</u>
<b>Total liabilities</b>		<u><u>(1,073,683)</u></u>	<u><u>(1,041,334)</u></u>
<b>Net assets</b>		<u><u>1,350</u></u>	<u><u>1,273</u></u>
<b>Equity</b>			
Share capital	12	13	13
Retained earnings	13	1,337	1,260
<b>Total equity</b>		<u><u>1,350</u></u>	<u><u>1,273</u></u>

The accompanying notes from page 19 to 30 are an integral part of these financial statements.

These financial statements of Artesian Finance plc, registration number 4369065 were approved and authorised for issue by the Board of Directors on 19 March 2025.

Signed on behalf of the Board of Directors



Sean Peter Martin

Director

ARTESIAN FINANCE PLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2024

	Share Capital	Retained earnings	Total
	£'000	£'000	£'000
Balance at 01 October 2022	13	1,226	1,239
Total comprehensive loss for the year	-	34	34
Balance at 30 September 2023	13	1,260	1,273
Total comprehensive income for the year	-	77	77
Balance at 30 September 2024	13	1,337	1,350

The accompanying notes from page 19 to 30 are an integral part of these financial statements.

**ARTESIAN FINANCE PLC****STATEMENT OF CASH FLOWS****For the year ended 30 September 2024**

	<b>Notes</b>	<b>2024 £'000</b>	<b>2023 £'000</b>
<b>Cash flows from operating activities</b>			
Interest received on loans	5	37,171	34,764
Payment on swap contracts	6	(68)	(64)
Payment of operating expense		(57)	(102)
Receipts of operating income		59	59
Receipt of collateral on swap contracts	6	217	351
Payment of collateral on swap contracts	6	-	(109)
Interest receipt on deposit		98	41
Interest paid on cash collateral		(97)	(35)
Income taxes paid		(20)	(16)
<b>Net cash flows from operating activities</b>		<b>37,303</b>	<b>34,889</b>
<b>Cash flows from financing activities</b>			
Interest paid on bonds issued	9	(37,000)	(34,607)
<b>Net cash flows used in financing activities</b>		<b>(37,000)</b>	<b>(34,607)</b>
<b>Net increase in cash and cash equivalents</b>		<b>303</b>	<b>282</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>2,873</b>	<b>2,591</b>
<b>Cash and cash equivalents at end of year</b>	4	<b>3,176</b>	<b>2,873</b>

The accompanying notes from page 19 to 30 are an integral part of these financial statements.

**ANALYSIS OF CHANGE IN NET DEBT**

	<b>2024 £' 000</b>	<b>2023 £' 000</b>
Balance at beginning of year	1,041,272	1,006,485
Cash movement	(37,000)	(34,607)
Non cash movement	69,298	69,394
<b>Closing balance</b>	<b>1,073,570</b>	<b>1,041,272</b>

The accompanying notes from pages 19 to 30 are an integral part of these financial statements.

# ARTESIAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

#### General information

Artesian Finance plc is a public company limited by shares incorporated and registered in England, 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 FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland 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;

- the full provisions of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments" of FRS 102;
- 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
- 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 Company's business activities, performance and position, as well as principal risks and uncertainties are set out in the Director's Report. It 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 interest rate risk, credit risk and liquidity risk.

The Directors acknowledge that the global macro-economic indicators and general business environment have remained challenging both in 2023 and 2024, marked by continued inflationary pressures, supply chain disruptions, and rising geoeconomic tensions remain to pose significant challenges to all underlying borrowers to whom the Company has exposure.

The Company's assets are comprised of loans to UK incorporated water companies which are linked to listed index-linked bonds issued by the Company. The most likely expected financial impact is in respect of the loan advanced by the Company. This impact is not expected to be significant given that a guarantee is provided by Assured Guaranty UK Limited, which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued.

Based on this assessment, the Directors have a reasonable expectation that there is no material impact from the above 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 31 March 2026, which is in excess of 12 months from when the financial statements are authorised for issue and have been prepared on a going concern basis.

## ARTESIAN FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. ACCOUNTING POLICIES (CONTINUED)

##### **Critical accounting judgements and key sources of estimation uncertainty**

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 which are used in the determination of the amortised cost carrying value of the loans and bonds.

Future UK retail price index levels are estimated from the latest UK retail price index level and UK retail price index forward inflation rates, as published by the Bank of England. It is reasonably possible that differences between the actual UK retail price index levels in future years and those that have been estimated could have a material impact on the carrying value of the loans and bonds.

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.

The Company makes use of reasonable and supportable information to make accounting judgments and estimates. This includes information about the observable effects of the physical and transition risks of climate change. 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. Some physical and transition risks can manifest in the shorter term.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Interest income receivable on cash and cash equivalents is accounted for on an accrual basis.

##### **Receivables**

Receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

##### **Investment in financial assets – index-linked loans advanced**

The loan assets advanced to water companies accrue interest using RPI index-linked interest rates. Under IAS 39 Financial Instruments: Recognition and Measurement, the Company's investment in such loans is classified as 'loans and receivables' and held at amortised cost with interest income recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts all estimated future cash payments or receipts through the expected life of the financial instrument.

At each reporting date, an assessment is made to determine if there are any indications of impairment. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### **Derivative instruments**

The Company has entered into a total return swap. The swap was entered into to hedge the mismatch of the cash flows of a bond issued and a loan advanced in December 2002. The interest rates on the bonds and loans are almost equal and have been designed in accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the Statement of financial position. Subsequent to initial recognition, any changes in fair value of the derivative held is recognised in the Statement of comprehensive income.

The fair value of the Total Return Swap is the estimated amount that the Company would receive or pay to terminate the swap at the Statement of financial position date and are based upon the market price of comparable instruments at that date.

Collateral transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements in respect of certain derivatives are net settled and are therefore netted off the carrying value of those derivatives on the Statement of financial position.

ARTESIAN FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Derivative assets and 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.

Interest bearing liabilities

Bonds issued by the Company accrue interest using index-linked interest rates. Under IAS 39 Financial Instruments: Recognition and Measurement, the Company’s bonds liability is held at amortised cost with interest expense recognised in the Statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts all estimated future cash payments or receipts over the expected life of the financial instrument.

Operating expenses and income

Operating expenses are expensed by the Company as they are incurred.

The Company has the right to demand reimbursement of amounts paid relating to operating expenses from borrowers of any loans issued. Reimbursement amounts are accrued at the time such a demand is made and are recognised as operating income in the Statement of comprehensive income.

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 net cash flows during the period and not by reference to its accounting profit.

2. DIRECTORS AND EMPLOYEES

None of the Directors received any emoluments for their services to the Company during the year (2023: £nil).

None of the Directors have any interests in the Company as at the year-end (2023: £nil).

None of the Directors had any material interest in any contract of significance in relation to the business of the Company (2023: £nil).

The Company does not have any employees (2023: none).

3. REMUNERATION OF THE AUDITOR

	2024	2023
	£’000	£’000
Audit services for the audit of the Company’s statutory accounts	34	30

\* Audit fees disclosed are exclusive of VAT.

**ARTESIAN FINANCE PLC****NOTES TO THE FINANCIAL STATEMENTS****4. CASH AND CASH EQUIVALENTS**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank	1,119	1,035
Deposits (including interest receivable)	2,057	1,838
	<u>3,176</u>	<u>2,873</u>

The deposit of £2,057,000 (2023: £1,838,000) is held in relation to cash collateral received under the terms of the total return swap.

**5. INVESTMENT IN FINANCIAL ASSETS**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
<b>Index-linked loans advanced</b>		
Balance at beginning of year	1,039,661	1,005,012
Effective interest applied	69,315	69,413
Cash interest received	(37,171)	(34,764)
Balance at end of year	<u>1,071,805</u>	<u>1,039,661</u>

The loan portfolio comprises loans to water companies with index-linked principal and interest rate characteristics. The loans mature on 30 September 2032, but the borrowers have the right to make voluntary prepayments if they give no less than 45 days written notice for all water companies except South East Water Ltd, for which the notice period is 10 days in accordance with respective loan agreements.

**6. SWAP CONTRACTS HELD AT FAIR VALUE**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
<b>Swap contracts held at fair value</b>		
Balance at beginning of year	73	173
Payments on swap contracts	68	64
Fair value revaluations recognised	128	78
Receipt of collateral on swap contracts	(217)	(351)
Payment of collateral on swap contracts	-	109
Balance at end of year	<u>52</u>	<u>73</u>



**ARTESIAN FINANCE PLC****NOTES TO THE FINANCIAL STATEMENTS****6. SWAP CONTRACTS HELD AT FAIR VALUE (CONTINUED)**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of Swaps	2,101	1,905
Less: Collateral Security held	(2,049)	(1,832)
Swap contracts held at fair value*	<u>52</u>	<u>73</u>

Receipts/payment of collateral pertains to amount transferred under the terms and conditions of credit support annex documents under International Swaps and Derivatives Association (ISDA) agreements.

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
<b>a) Tax on profits on ordinary activities</b>		
<b>Current taxation:</b>		
Charge for the year	<u>25</u>	<u>20</u>
<b>Current tax charge for the year</b>	<u>25</u>	<u>20</u>

**b) Reconciliation of the total tax charge**

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 25% (2023: 22.01%) as follows:

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
Profit before tax	<u>102</u>	<u>54</u>
Expected tax	25	12
Adjustment under SI 2006/3296 s14(4)	(25)	(12)
Taxable amount brought in under SI 2006/3296 s14(1)(a)(ii)	25	20
<b>Actual tax charge</b>	<u><u>25</u></u>	<u><u>20</u></u>

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.

**ARTESIAN FINANCE PLC****NOTES TO THE FINANCIAL STATEMENTS****8. PAYABLES**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
Other creditors	80	36
Interest payable	8	6
	<u>88</u>	<u>42</u>

The total payables include auditor's fees accrual for the audit of the Company's accounts for 2023 and 2024.

**9. INTEREST-BEARING LIABILITIES**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
<b>Index-linked bonds issued</b>		
Balance at beginning of year	1,041,272	1,006,485
Effective interest applied	69,298	69,394
Cash interest paid	<u>(37,000)</u>	<u>(34,607)</u>
Balance at end of year	<u>1,073,570</u>	<u>1,041,272</u>

The Company issued Guaranteed Secured Index-linked bonds on 26 June 2002 with a nominal value of £66,500,000 under the £750 million issuance programme. The Company received £78,475,000 in consideration of the issue of the bonds. The bonds bear interest of 3.625% p.a., on a bi-annual basis, with a legal maturity date of 30 September 2032. The bonds can be redeemed early under certain conditions described in the Offering Circular.

Further bond issues took place on 22 August 2002 with a nominal value of £35,181,000, on 9 December 2002 with a nominal value of £135,821,000, on 7 May 2003 with a nominal value of £14,799,000, on 12 February 2004 with a nominal value £25,000,000, on 5 July 2004 with a nominal value of £149,364,000 and on 13 June 2005 with a nominal value of £46,363,000. The Company received net proceeds less issue costs of £38,181,571, £141,434,390, £16,361,386, £28,876,810, £178,696,016 and £61,531,696 respectively, in consideration of the issue of the bonds. All of these bonds bear interest of 3.625% p.a. with a maturity date of 30 September 2032.

The principal balance of the bonds is subject to an indexation adjustment on a semi-annual basis. The average indexation ratio in 2023 is 2.1578 (2023: 2.0181)

A guarantee is provided by Assured Guaranty UK Limited which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued.

**10. INTEREST INCOME**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
Interest income on loans	69,315	69,413
Interest income on deposit	<u>98</u>	<u>44</u>
	<u>69,413</u>	<u>69,457</u>

**ARTESIAN FINANCE PLC****NOTES TO THE FINANCIAL STATEMENTS****11. INTEREST EXPENSE**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
Interest expense on Bonds Issued	69,298	69,394
Interest expense on Cash Collateral	99	44
	<u>69,397</u>	<u>69,438</u>

**12. SHARE CAPITAL**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
<b>Equity shares – Authorised:</b>		
50,000 (2023: 50,000) Ordinary shares of £1 each	50	50
<b>Called up, allotted and partly paid:</b>		
50,000 (2023: 50,000) ordinary shares partly paid up at 25p each	<u>13</u>	<u>13</u>

49,999 shares of the Company are held by Apex Trust Nominees No. 1 Limited under a declaration of trust for charitable purposes and 1 share is held by Apex Corporate Trustees (UK) Limited under the terms of a declaration of trust for charitable purposes. These shares were issued on 21 March 2002 for a cash consideration of 25p each.

**13. RETAINED EARNINGS**

	<b>2024</b>	<b>2023</b>
	<b>£'000</b>	<b>£'000</b>
At start of year	1,260	1,226
Profit for the year	<u>77</u>	<u>34</u>
At end of year	<u>1,337</u>	<u>1,260</u>

## ARTESIAN FINANCE PLC

### NOTES TO THE FINANCIAL STATEMENTS

#### 14. FINANCIAL INSTRUMENTS

The Company's financial instruments principally comprise amounts due from loans advanced to water companies, index-linked bonds, 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.

The loan portfolio comprises seven loans to water companies at index-linked interest rates. The loans mature on 30 September 2032.

##### **Capital risk management**

The Company manages its capital to ensure it will be able 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 has in place a guarantee to help ensure it is able to meet its capital requirements.

##### **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. While the loans are secured by a fixed and floating charge over the borrowers' assets, the Company considered the borrowers' ability to service the loans to be the principal factor in assessing credit risk and the decision to lend.

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 on the loans and derivative with the obligations on the bonds and having in place a guarantee (see note 9) to ensure that its obligations on the bonds can be met.

# ARTESIAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. FINANCIAL INSTRUMENTS (CONTINUED)

#### Liquidity risk (Continued)

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

As at 30 September 2024	Carrying amount £'000	Contractual cash flows £'000	0-3 month £'000	3 months-1 year £'000	1-5 years £'000	Over 5 years £'000
----------------------------	-----------------------------	------------------------------------	--------------------	-----------------------------	--------------------	-----------------------

#### Non-derivatives financial liabilities

Bonds issued	(1,073,570)	(1,709,533)	-	(38,472)	(168,518)	(1,502,543)
	(1,073,570)	(1,709,533)	-	(38,472)	(168,518)	(1,502,543)

As at 30 September 2023	Carrying amount £'000	Contractual cash flows £'000	0-3 month £'000	3 months-1 year £'000	1-5 years £'000	Over 5 years £'000
----------------------------	-----------------------------	------------------------------------	--------------------	-----------------------------	--------------------	-----------------------

#### Non-derivatives financial liabilities

Bonds issued	(1,041,272)	(1,778,488)	-	(37,171)	(163,766)	(1,577,551)
	(1,041,272)	(1,778,488)	-	(37,171)	(163,766)	(1,577,551)

#### Interest rate

Interest rate risk is managed by matching the interest terms of the bonds issued with the loans held. The Company finances its operations through the issue of bonds at a fixed rate of 3.625% p.a. Six of the loans advanced to water companies carry a fixed rate of interest of 3.635% p.a. The remaining loan issued carries a fixed rate of interest of 3.692% p.a.

The interest payments on the bonds and the loans are determined on a semi-annual basis and are subject to indexation adjustment basis on effective interest rate method. As there is no mismatch in the basis of interest rates for its assets and liabilities, the Company has no net material exposure to interest rate risk and no sensitivity analysis is presented.

# ARTESIAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. FINANCIAL INSTRUMENTS (CONTINUED)

The Company's exposure to interest rate risk and the effective weighted average interest rate applicable to each class of financial asset and financial liability is set out below.

	2024		2023	
	Weighted average effective interest rate		Weighted average effective interest rate	
	% p.a.	2024 £'000	% p.a.	2023 £'000
<b>Financial assets</b>				
Cash and cash equivalents	-	3,176	-	2,873
Index-linked loans advanced	6.62	1,071,805	6.85	1,039,661
Total return swap	-	52	-	73
<b>Financial liabilities</b>				
Index-linked bonds issued	6.60	(1,073,570)	6.84	(1,041,272)
Net financial assets		<u>1,463</u>		<u>1,335</u>

#### Total return swap

As at 30 September 2024, the Company had one outstanding total return swap (2023: one). The swap was entered into to hedge the mismatch of the cash flows of a bond issued and a loan advanced in December 2002. The bond has an un-indexed face value of £135,821,000 and that of the loan is £135,000,000. In order to ensure that the Company has sufficient cash at maturity to redeem the bonds, the swap pays any difference between the principal repayment from the borrower and the total amount due to the bond holders. The Company exchanges the excess coupon it earns on the loan for the total return swap.

#### Foreign exchange risk

All transactions and financial instruments are denominated in the Company's functional currency and consequently no currency exposure arises.

# ARTESIAN FINANCE PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 14. FINANCIAL INSTRUMENTS (CONTINUED)

#### Fair values of financial assets and financial liabilities

The comparison of book and fair values of all the Company's financial instruments is set out below. For the bonds issued, market values 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 RPI linked loans, a spread consistent with that on the bonds issued has been applied. RPI linked cash flows have been forecast using rates derived from Sterling Index Linked Gilt.

	2024	2024	2023	2023
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Cash at bank	3,176	3,176	2,873	2,873
RPI linked loans	1,071,805	1,148,777	1,039,661	1,112,878
Total return (RPI) swap	52	52	73	73
Payables	(88)	(88)	(42)	(42)
Index-linked bonds	(1,073,570)	(1,148,432)	(1,041,272)	(1,112,496)
	<u>1,375</u>	<u>3,485</u>	<u>1,293</u>	<u>3,286</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).

The fair value of the loans and swap are derived using observable inputs other than quoted prices, like interest rates and inflation rates, included within Level 1, and are classified as Level 2 assets. The fair value of the bonds is derived using observable inputs from quoted prices and is classified as a Level 2 liability.

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

## **ARTESIAN FINANCE PLC**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **15. RELATED PARTY TRANSACTIONS**

Apex Corporate Services (UK) Limited, Apex Trust Corporate Limited and Sean Peter Martin are Directors of the Company and Apex Trust Corporate Limited is the Company's corporate service provider. Apex Trust Nominees No. 1 Limited provides trustee services. During the year, fees incurred for these services were £30,602 (2023: £31,328) and no amount was payable as at 30 September 2024 (2023: nil).

#### **16. ULTIMATE PARENT AND CONTROLLING PARTY**

The ultimate parent company is Apex Trust Nominees No. 1 Limited which holds a majority shareholding under the terms of a declaration of a Charitable Trust and is registered at 4th Floor, 140 Aldersgate Street, London, EC1A 4HY, United Kingdom.

#### **17. SUBSEQUENT EVENTS**

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