

Company Registration No. 05623796

ARTESIAN FINANCE III PLC

Annual Report and Financial Statements

For the year ended 30 September 2021



ARTESIAN FINANCE III PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

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ARTESIAN FINANCE III PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS 2021

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Colin Benford
Apex Trust Corporate Limited
Apex Corporate Services (UK) Limited

SECRETARY

Apex Trust Corporate Limited
Bastion House
6th Floor
140 London Wall
London
United Kingdom
EC2Y 5DN

REGISTERED OFFICE

Bastion House
6th Floor
140 London Wall
London
United Kingdom
EC2Y 5DN

BANKERS

The Royal Bank of Scotland Plc
250 Bishopsgate
London
United Kingdom
EC2M 4AA

AUDITOR

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

ARTESIAN FINANCE III PLC

STRATEGIC REPORT

The Directors present the Strategic Report of Artesian Finance III plc (the "Company") for the year ended 30 September 2021.

ACTIVITIES

The principal activity of the Company is to hold loans advanced to a water company. The first, and to date, only loan advanced is made available to South Staffordshire Water plc. The principal balances of the issued loans and bonds as at 30 September 2021 are £111,400,000 (2020: £111,400,000) and £111,400,000 (2020: £111,400,000) respectively. The Company currently 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 £6,000 (2020: £18,000) and was transferred to reserves. The Directors do not recommend the payment of a dividend (2020: £nil).

BUSINESS REVIEW

The loan portfolio of the Company consists of one index-linked loan which is funded by index-linked bonds. The loan and bonds are held at amortised cost of £270,239,000 (2020: £263,697,000) and £270,198,000 (2020: £263,659,000) respectively. Total assets are a key performance indicator for the Company. The total assets for 2021 are £270,525,000 (2020: £263,984,000). The interest rate on the loan to the water company is set such that the Company makes a profit of one basis point per annum. The net interest income for 2021 is £20,000 (2020: £19,000) which is in line with expectations. No impairment indicators have been noted on the customer loan and therefore £nil provision has been recognised (2020: £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

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 year and the Company has policies in place to mitigate these risks to enable it to continue as a going concern. Refer to note 13 of the financial statements for details.

In March 2020, the World Health Organization declared the spread of the Covid-19 virus a pandemic. Since then, many countries, including the UK, have periodically imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread of the virus and reduce its impact.

There remains significant uncertainty regarding the developments of the pandemic and the future economic recovery. We have assessed the impact of Covid-19 on the Company's financial statements. The Company's assets are comprised of a loan to a UK incorporated water company, which is collateralized to listed fixed rate 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 a guarantee 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 Covid-19 on the Company's financial instruments valuation or liquidity and the Company has adequate resources to continue in operational existence for the period to 31st December 2022, which is in excess of 12 months from when the financial statements are authorised for issue.

We continue to monitor the impact of Covid-19 on the Company.

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

Credit risk

The main risk arising from the Company's financial instruments is credit risk. The Company faces the credit risk that the borrower might not be able to meet their obligations as they fall due. The Company considered the customer's ability to service the loan to be the principal factor in assessing the credit risk and the decision to lend.

The loan has been lent to a water company; therefore the credit risk is highly concentrated. However, the Directors believe that the loan is fully recoverable and do not consider any impairment is necessary. The water company is rated BAA2 by rating agencies as disclosed in their latest financial statements.

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.

ARTESIAN FINANCE III PLC

STRATEGIC REPORT (CONTINUED)

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 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


The Company manages its interest rate risk by matching the interest terms of its assets and liabilities. The Company finances its operations through the issue of a bond at a fixed rate of 3.75%. The loan advanced to the water company carries a fixed rate of interest of 3.76%. Interest rates on the bond and loan are subject to an indexation adjustment on a semi-annual basis.

Director's 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 were briefed on the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018 in advance of the effective date.

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



Colin Benford

Director

Date: 9 December 2021

ARTESIAN FINANCE III PLC

DIRECTORS' REPORT

The Directors present their Directors' Report and the audited financial statements for the year ended 30 September 2021.

CHANGE OF REGISTERED OFFICE

On 05 July 2021, the registered office of the Company changed from 125 Wood Street, London, United Kingdom EC2V 7AN to Bastion House, 6th Floor, 140 London Wall, London, United Kingdom EC2Y 5DN.

RESULTS AND DIVIDEND

No dividend was declared or paid from the Company during the year (2020: £nil) and the Directors do not propose a final dividend (2020: £nil).

DIRECTORS

The Directors who served throughout the year are as follows:

Colin Benford
Apex Trust Corporate Limited
Apex Corporate Services (UK) Limited

EMPLOYEES

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

DIRECTORS' INDEMNITIES

Apex Trust Corporate Limited provided third party indemnity provisions for the benefit of Colin Benford during the year. These indemnity provisions remain in force at the date of this report.

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 13 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 profits for the financial year, and determined that its assets are not impaired as at the Statement of financial position date. As at the Statement of financial position date, the Company has net assets of £230,000 (2020: £224,000). Currently the long-term assets are funded by long-term index-linked bonds.

After making enquiries, and considering the uncertainties set out on page 2, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the period to 31st December 2022, 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.

ARTESIAN FINANCE III PLC

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:



Colin Benford

Director

Date: 9 December 2021

ARTESIAN FINANCE III 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



Colin Benford
Director

Date: 9 December 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE III PLC (CONTINUED)

Opinion

We have audited the financial statements of Artesian Finance III Plc for the year ended 30 September 2021 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 16 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 2021 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 nature 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 assessed the financial performance of the underlying water company and confirmed that no impairment indicators exist, and;
- We reviewed the director's going concern disclosures, including analysis of the impact of COVID-19.

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 31 December 2022, which is in excess of 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	<ul style="list-style-type: none">• 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)• Estimation uncertainty with respect to impairment losses on loans advanced
Materiality	<ul style="list-style-type: none">• Overall materiality of £2.7m which represents 1% of Total Assets.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE III PLC (CONTINUED)

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.

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
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)		
<p><i>Refer to Accounting policies (page 17); and Note 6 of the Financial Statements (page 19)</i></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"> Loans advanced to a water company (£270.2m as at 30 September 2021 and £263.7m as at 30 September 2020, as per Note 1 on page 17, and Note 6 on page 19) with interest income accrued (£13m for the year ended 30 September 2021 and £11.3m 13m for the year ended 30 	<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 2021.</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>We are satisfied that the EIR interest income in respect of the loan portfolio is fairly stated in all material respects and in accordance with FRS 102.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE III PLC
(CONTINUED)**

Risk	Our response to the risk	Key observations communicated to those charged with governance
<p>September 2020, as per Note 6 on page 19)</p> <ul style="list-style-type: none"> Bonds issued (£270.2m as at 30 September 2021 and £263.7m as at 30 September 2020, as per Note 1 on page 17, and Note 9 on page 20) with interest expense accrued (£13m for the year ended 30 September 2021 and £11.3m for the year ended 30 September 2020, as per Note 10 on page 21) 		
Estimation uncertainty with respect to impairment losses on loans advanced		
<p><i>Refer to Accounting policies (page 17); and Note 5 of the Financial Statements (page 19)</i></p> <p>We consider the risk of management not identifying indicators of impairment in respect of the loan portfolio 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 2021.</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"> Loans advanced to a water company (£270.2m as at 30 September 2021 and £263.7m as at 30 September 2020, as per Note 1 on page 17, and Note 6 on page 19) 	<p>To test the completeness of the identification of loans with loss events we independently assessed whether any loss indicators were present for all loans in the portfolio. We performed the following procedures:</p> <ul style="list-style-type: none"> Inspected external credit ratings and issued annual reports of the borrower focusing on the impact of Covid-19 on their financial position and going concern assumptions Reviewed and challenged management's impairment assessment Inspected bank statements to identify any missed interest payments from a loan counterparty Inspected loan agreement to identify the existence of significant covenants and assessed whether or not those covenants were in breach. 	<p>We have communicated to those charged with governance that we did not rely on controls in relation to the impairment provision assessment and performed a fully substantive audit with respect to impairment provision.</p> <p>We are satisfied that there are no indicators of loan impairment, 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 III PLC (CONTINUED)

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 £2.7 million (2020: £2.64 million), which is 1% (2020: 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% (2020: 75%) of our planning materiality, namely £2.0m (2020: £1.98m). 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 £135k (2020: £132k), 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 within 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
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE III PLC (CONTINUED)

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.

- 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 III 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE III PLC (CONTINUED)

- 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 30th September 2016 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 30th September 2016 to 30th September 2021.

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.

Jean-Philippe Faillat (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 13 December 2021

Ernst & Young LLP.

ARTESIAN FINANCE III PLC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2021

	Notes	2021 £'000	2020 £'000
Interest income	6	13,020	11,319
Interest expense	9	(13,000)	(11,300)
Net interest income		<u>20</u>	<u>19</u>
Other operating income		47	47
Other operating expenses		(58)	(45)
Profit before tax		<u>9</u>	<u>21</u>
Taxation	8	(3)	(3)
Profit after tax and total comprehensive income for the year		<u><u>6</u></u>	<u><u>18</u></u>

The accompanying notes from page 17 to 24 are an integral part of these financial statements.

The results above arose wholly from continuing operations, and there is no other comprehensive income.

ARTESIAN FINANCE III PLC

STATEMENT OF FINANCIAL POSITION

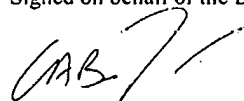
As at 30 September 2021

	Notes	2021 £'000	2020 £'000
Non-current assets			
Loans advanced	6	270,239	263,697
Total non-current assets		270,239	263,697
Current assets			
Cash and cash equivalents	4	273	274
Receivables	5	13	13
Total current assets		286	287
Total assets		270,525	263,984
Current liabilities			
Payables	7	(34)	(35)
Current tax liabilities		(3)	(3)
Total current liabilities		(37)	(38)
Non-current liabilities			
Interest bearing liabilities	9	(270,198)	(263,659)
Deferred income	10	(60)	(63)
Total non-current liabilities		(270,258)	(263,722)
Total liabilities		(270,295)	(263,760)
Net assets		230	224
Equity			
Share capital	11	13	13
Retained earnings	12	217	211
Total equity		230	224

The accompanying notes from page 17 to 24 are an integral part of these financial statements.

These financial statements of Artesian Finance III plc, registration number 05623796, were approved and authorised for issue by the Board of Directors on 9 December 2021.

Signed on behalf of the Board of Directors



Colin Benford

Director

ARTESIAN FINANCE III PLC

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2021

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 30 September 2019	13	193	206
Profit for the year	-	18	18
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2020	13	211	224
Profit for the year	-	6	6
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2021	<hr/> <hr/> 13	<hr/> <hr/> 217	<hr/> <hr/> 230

The accompanying notes from page 17 to 24 are an integral part of these financial statements.

ARTESIAN FINANCE III PLC

STATEMENT OF CASH FLOWS

For the year ended 30 September 2021

	Notes	2021 £'000	2020 £'000
Operating activities			
Interest received	6	6,478	6,341
Change to net operating income		(15)	(4)
Net cash from operating activities before tax		<u>6,463</u>	<u>6,337</u>
Tax paid		(3)	(3)
Net cash from operating activities after tax		<u>6,460</u>	<u>6,334</u>
Financing activities			
Interest paid	9	(6,461)	(6,325)
Net cash used in financing activities		<u>(6,461)</u>	<u>(6,325)</u>
Net (decrease)/increase in cash and cash equivalents		(1)	9
Cash and cash equivalents at beginning of year		<u>274</u>	<u>265</u>
Cash and cash equivalents at end of year	4	<u>273</u>	<u>274</u>

The accompanying notes from page 17 to 24 are an integral part of these financial statements.

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2021

1. ACCOUNTING POLICIES

General information

Artesian Finance III 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

In March 2020, the World Health Organization declared the spread of the Covid-19 virus a pandemic. Since then, many countries, including the UK, have periodically imposed strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread of the virus and reduce its impact.

The directors note that the global spread of Covid-19 and associated containment measures resulted in unprecedented, sharp and sudden impacts on economic activity across a wide range of countries, including the UK. Impacts on some sectors and parts of the economy have been extreme at times.

Whilst vaccination programmes are currently being deployed globally and underpin expectations around medium-term recovery prospects, these vaccines may ultimately fail to achieve sufficient levels of general population immunity. Therefore, significant uncertainties remain as to how long the Covid-19 pandemic will last. Subsequent waves of infection may result in the reintroduction of restrictions in affected countries or regions. Even when restrictions are relaxed, they may be re-imposed, potentially at short notice, if either levels of immunisation are insufficient or new strains of the Covid-19 virus or other diseases develop into new epidemics or pandemics.

There remains significant uncertainty regarding the developments of the pandemic and the future economic recovery. 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. Further, we have considered the uncertainties associated with Covid-19 including the different ways in which this could impact the cash flows, capital, solvency and liquidity position of the Company and any mitigations management have within their control to implement.

Based on this assessment, the Directors have a reasonable expectation that there is no material impact of Covid-19 on the Company's financial instruments valuation or liquidity and the Company has adequate resources to continue in operational existence for the period to 31st December 2022, 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.

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2021

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 over recoverability of assets and estimates made on future retail price indexation in the determination of the amortised cost of the loans and bonds.

The inflation forecast has been taken from the Forward UK Inflation Curve, as published by the Bank of England. The impact on future years is impractical to calculate.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the affected asset or liability.

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.

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 the water company 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.

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.

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 through the expected life of the financial instrument.

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2021

1. ACCOUNTING POLICIES (CONTINUED)

Operating expenses and income

Operating expenses are recognised on an accrual basis.

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 (2020: £nil).

None of the Directors have any interests in the Company as at the year-end (2020: £nil).

None of the Directors had any material interest in any contract of significance in relation to the business of the Company (2020: £nil). The Company does not have any employees (2020: none).

3. REMUNERATION OF THE AUDITOR

	2021 £'000	2020 £'000
Amounts paid or payable to the auditor:		
Audit services for the audit of the Company's statutory accounts	30	28

4. CASH AND CASH EQUIVALENTS

	2021 £'000	2020 £'000
Cash at bank	273	274

5. RECEIVABLES

	2021 £'000	2020 £'000
Other receivables	13	13

The other receivables of £12,500 relates to the unpaid share capital disclosed in Note 11.

6. INVESTMENT IN FINANCIAL ASSETS

	2021 £'000	2020 £'000
Index-linked loans		
Balance at beginning of year	263,697	258,719
Effective interest applied	13,020	11,319
Cash interest received	(6,478)	(6,341)
Balance at end of year	270,239	263,697

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2021

6. INVESTMENT IN FINANCIAL ASSETS (CONTINUED)

The loan portfolio at the year-end comprises one loan to a water company with RPI index-linked principal and interest rate characteristics. The loan is due to mature on 30 September 2045, but the borrower has the right to make voluntary prepayments if they give no less than 45 days' written notice in accordance with the loan agreement.

7. PAYABLES

	2021 £'000	2020 £'000
Other payables	34	35

The other payables include £27,000 (2020: £27,000) auditor's fees for the audit of the Company's accounts.

8. TAXATION

a) Tax on profits on ordinary activities

	2021 £'000	2020 £'000
Current taxation:		
Charge for the year	3	3
Total tax charge for the year	3	3

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 19% (2020: 19%) as follows:

	2021 £'000	2020 £'000
Profit before tax	9	21
Expected tax charge	2	4
Adjustment under SI 2006/3296 s14(4)	(2)	(4)
Taxable amount brought in under SI 2006/3296 s14(1)(a)(ii)	3	3
Total tax charge for the year	3	3

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 UK corporation tax rate applicable to the Company from 1 April 2020 is 19%. It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This legislative change was enacted on 24 May 2021.

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2021

9. INTEREST BEARING LIABILITIES

	2021 £'000	2020 £'000
Index-linked bonds issued		
Balance at beginning of year	263,659	258,684
Effective interest applied	13,000	11,300
Cash interest paid	(6,461)	(6,325)
Balance at end of year	<u>270,198</u>	<u>263,659</u>

The Company issued Guaranteed Secured Index-linked bonds on 15 December 2005 with a nominal value of £111,400,000 under the Company's £750,000,000 bond issuance programme.

The Company received £174,923,622 in consideration of the issue of the bond, with related issue costs being £6,983,171. The bonds bear interest of 3.75%, on a bi-annual basis, with a legal maturity date of 30 September 2045. The bonds can be redeemed early under certain conditions described in the Offering Circular.

The principal balance of the bonds is subject to an indexation adjustment on a semi-annual basis. The average indexation ratio in 2021 was 1.536650 (2020: 1.51385).

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. DEFERRED INCOME

	2021 £'000	2020 £'000
Deferred management fee income	<u>60</u>	<u>63</u>

The deferred management fee income relates to the amount retained in the Company under the bond issuance programme.

11. SHARE CAPITAL

	2021 £	2020 £
Called up, allotted and partly paid:		
50,000 (2020: 50,000) ordinary shares partly paid at 25p each	<u>12,500</u>	<u>12,500</u>

49,999 ordinary shares of the Company are held by Apex Trust Nominees No.1 Limited and 1 ordinary share is held by Apex Trust Nominees No.2 Limited. These shares were issued on 15 November 2005 for cash consideration of 25p each.

12. RETAINED EARNINGS

	2021 £'000	2020 £'000
At start of the year	211	193
Profit for the year	<u>6</u>	<u>18</u>
At end of the year	<u>217</u>	<u>211</u>

13. FINANCIAL INSTRUMENTS

The Company's financial instruments principally comprise amounts due from a loan advanced to a water company, an index-linked bond, 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 a loan to a water company at an RPI index-linked interest rate. The loan matures on 30 September 2045.

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2021

13. FINANCIAL INSTRUMENTS (Continued)

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 borrower might not be able to meet its obligations as they fall due. The Company considered the customer's ability to service the loan to be the principal factor in assessing the credit risk and the decision to lend.

The loan has been lent to a water company; therefore the credit risk is highly concentrated. However the Directors believe that the loan is fully recoverable and do not consider any impairment is necessary. The water company is rated BAA2 by rating agencies as disclosed in their latest financial statements.

The maximum exposure to credit risk arising on the Company's financial assets 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 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.

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

As at 30 September 2021	Carrying amount £'000	Contractual cash flows £'000	<1 month £'000	1-3 months £'000	3 months- 1 year £'000	1-5 years £'000	5 years and over £'000
Non-derivatives financial liabilities							
Bond issued	(270,198)	(680,106)	-	-	(6,723)	(29,525)	(643,858)
	(270,198)	(680,106)	-	-	(6,723)	(29,525)	(643,858)
<hr/>							
As at 30 September 2020	Carrying amount £'000	Contractual cash flows £'000	<1 month £'000	1-3 months £'000	3 months- 1 year £'000	1-5 years £'000	5 years and over £'000
Non-derivatives financial liabilities							
Bond issued	(263,659)	(612,945)	-	-	(6,461)	(27,828)	(578,656)
	(263,659)	(612,945)	-	-	(6,461)	(27,828)	(558,656)
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ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2021

13. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Company manages its interest rate risk by matching the interest terms of its assets and liabilities. The Company finances its operations through the issue of a bond at a fixed rate of 3.75%. The loan advanced to the water company carries a fixed rate of interest of 3.76%. Interest rates on the bond and loan are subject to an indexation adjustment on a semi-annual basis. As such, the Company has no net material exposure to interest rate risk and no sensitivity analysis is presented.

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

	2021 Weighted average effective interest rate % p.a.	2021 £'000	2020 Weighted average effective interest rate % p.a.	2020 £'000
Financial assets				
Cash and cash equivalents	-	273	-	274
Loans advanced	4.91	270,239	4.35	263,697
Financial liabilities				
Bonds issued	4.91	(270,198)	4.35	(263,659)
Net financial assets		<u>314</u>		<u>312</u>

Foreign exchange risk

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

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 Gilts.

	2021 Book value £'000	2021 Fair value £'000	2020 Book value £'000	2020 Fair value £'000
Assets				
Cash at bank	273	273	274	274
Loans advanced	270,239	410,750	263,697	395,634
Receivables	13	13	13	13
	<u>270,525</u>	<u>411,036</u>	<u>263,984</u>	<u>395,921</u>
Liabilities				
Payables	(34)	(34)	(35)	(35)
Bonds issued	(270,198)	(410,443)	(263,659)	(395,316)
	<u>(270,232)</u>	<u>(410,477)</u>	<u>(263,694)</u>	<u>(395,351)</u>
	<u>293</u>	<u>559</u>	<u>290</u>	<u>570</u>

ARTESIAN FINANCE III PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2021

13. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities (Continued)

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).

The fair value of the loans are derived using observable inputs other than quoted prices included within Level 1, and are classified as a Level 2 asset. 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.

14. RELATED PARTY TRANSACTIONS

Apex Corporate Services (UK) Limited and Apex Trust Corporate Limited 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 totalled £24,387 (2020: £17,406) and £5,276 (2020: £6,568) was payable as at 30 September 2021.

15. 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 Bastion House, 6th Floor, 140 London Wall, London, England EC2Y 5DN.

16. SUBSEQUENT EVENTS

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