Scottish Water
Trusted to serve Scotland

2024/25 ANNUAL REPORT AND ACCOUNTS PERFORMANCE AND PROSPECTS

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Our Piped by Us, Owned by You campaign highlights how we are a publicly-owned organisation. A number of our employees, including the three people on the cover of this report, appear in it.

Throughout this report you will see links that contain more detailed information on specific areas.

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ANNUAL REPORT & ACCOUNTS 2024/25: PERFORMANCE AND PROSPECTS

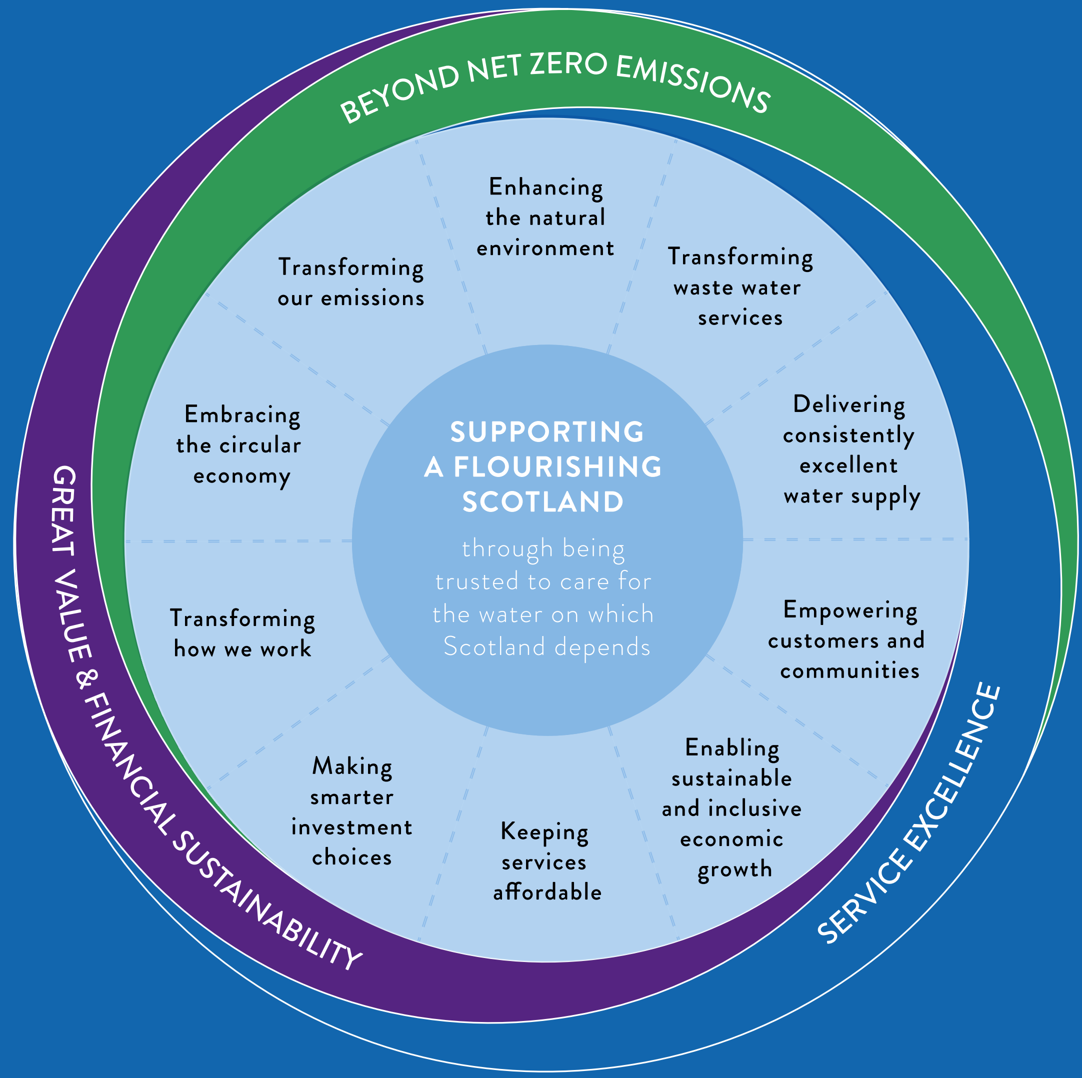
Overview

This Annual Report & Accounts 2024/25: Performance and Prospects provides an open and transparent view of Scottish Water's performance in the last year, the fourth of our regulatory period, 2021-27.

We highlight what has gone well, where we fell short of delivery commitments and provide an overview of our future direction. We are committed to listening to our customers and communities to assess and evaluate our work to drive improvements for the future.

This report includes lessons we have learned and how we will adapt to continue to deliver first-class service for our customers. Our 25 year Long-Term Strategy, "Our Sustainable Future Together" sets out the key challenges ahead and our response to them, highlighting the importance of collaboration, innovation and managing future demand as critical to ensuring we remain resilient over the long term. Scottish Water also has 3 enduring strategic priorities: Service Excellence, Delivering Great Value & Financial Sustainability, and Going Beyond Net Zero Emissions. This report describes our performance in these areas areas during the last year and our prospects for the future.

SUPPORTING A FLOURISHING SCOTLAND



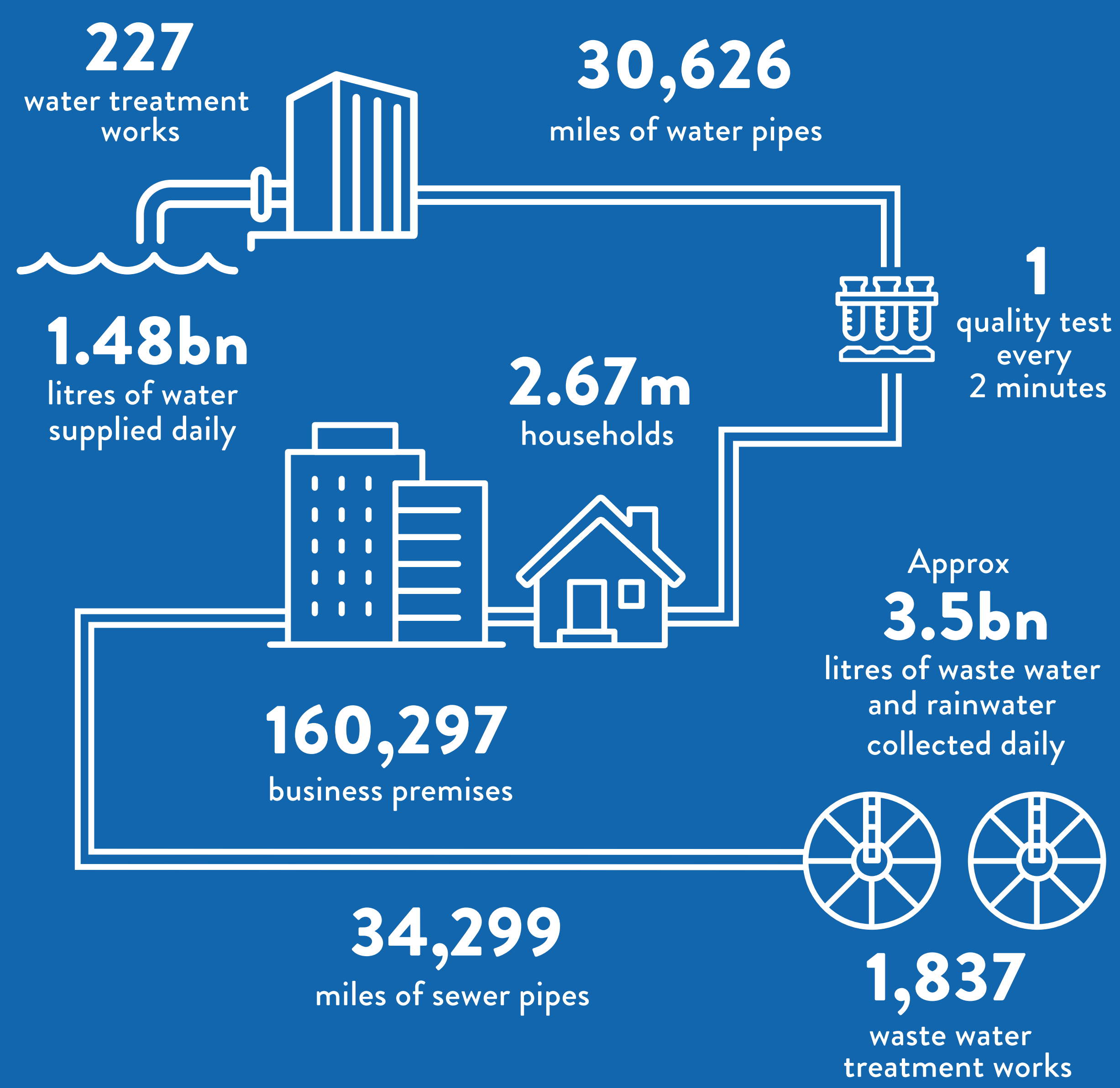
WHO WE ARE AND WHAT WE DO

Scottish Water is a public sector body, classified as a public corporation of a trading nature, answerable to the Scottish Parliament through Scottish Ministers. This ownership model allows any surplus generated to be reinvested in the provision of services to our customers.

Our purpose is to support a flourishing Scotland through being trusted to care for the water on which Scotland depends. Our customers expect us to provide excellent customer service by delivering high levels of water quality and environmental performance; while ensuring we provide value for every pound we spend. Using Scotland's natural resources and the skills of our people, we are committed to improving our services for customers and communities while protecting and enhancing the environment of Scotland. How we do this is covered in this report.

Our operations

Every day we supply vital water and waste water services to households across Scotland, and we are also the wholesaler to 21 Licensed Providers who operate in the water and waste water retail market for business customers in Scotland.

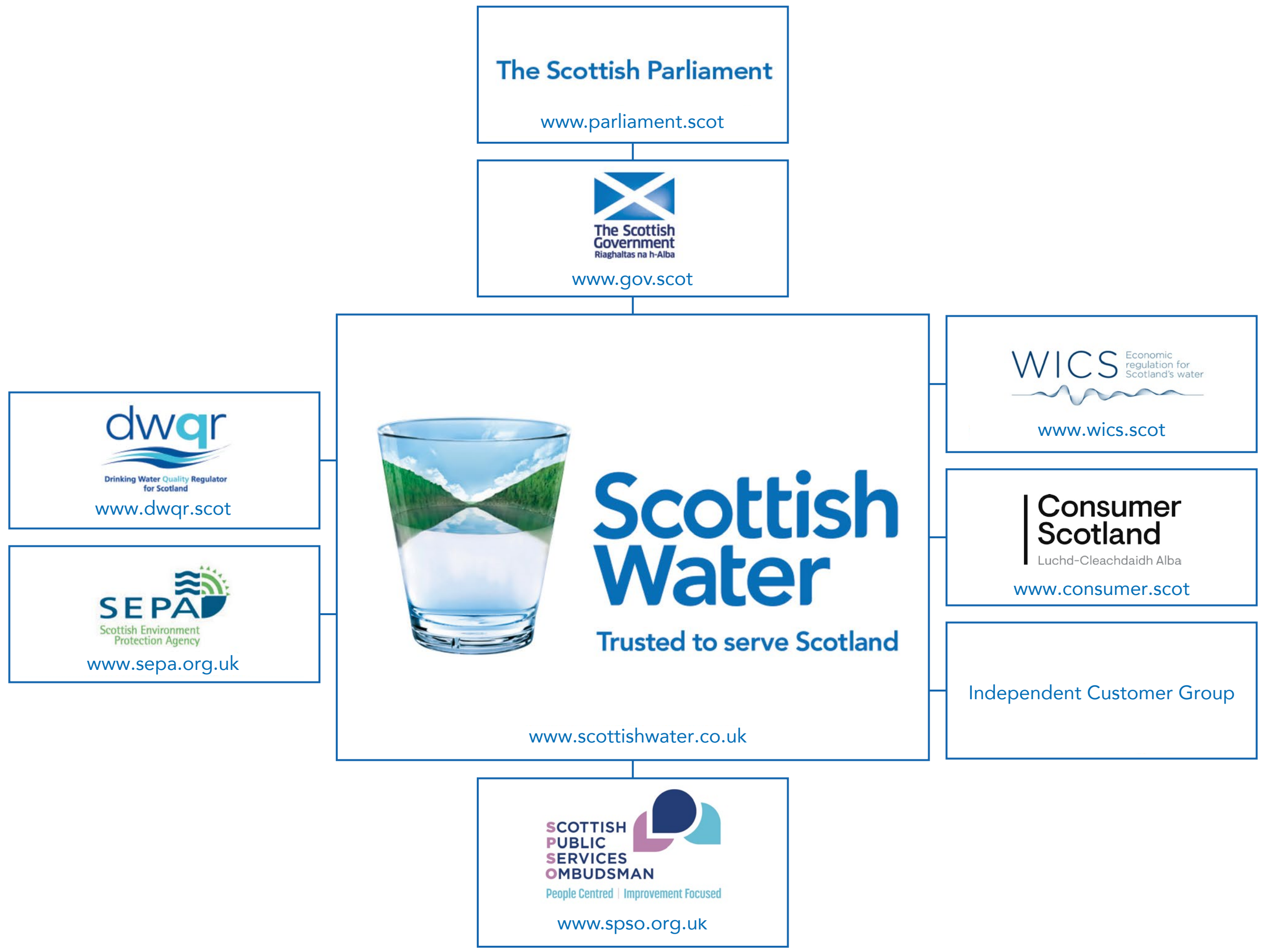


BUSINESS MODEL

Scottish Water is a publicly owned, independently regulated and commercially run organisation where all surpluses are reinvested to help keep customer charges as low as possible.

Scottish Water's regulated business supplies water and waste water services to households and is also the wholesaler to the water retail market for businesses in Scotland.

The Water Industry in Scotland



Business Stream, our retail subsidiary, competes as a Licensed Provider in the Scottish and English markets to supply retail services to business customers. Non-regulated activities are predominantly undertaken through Scottish Water Horizons.

Business Stream is operated in accordance with the Governance Code (agreed with the Water Industry Commission for Scotland (WICS).

The code sets out the operating regime Scottish Water and Business Stream must comply with to enable the operation of the licensed retail market. It has the same Chair as Scottish Water but has its own independent Board and management team. Scottish Water exercises governance over Business Stream through Scottish Water Business Stream Holdings Ltd in accordance with the above code. The group also provides non-regulated commercial services primarily through Scottish Water Horizons Holdings Ltd[1].

[1] Note 11 on page 137 sets out the list of companies over which Scottish Water has ownership.

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SCOTTISH WATER: PERFORMANCE HIGHLIGHTS 2024/25 COMPARED WITH 2023/24

REGULATED COMPANY

CUSTOMER SERVICE

416 ↑ 14
(402)
Overall Performance Assessment (OPA[2])

262,720 ↓ 22,088
(284,808)
Customer contacts[3]

87.3 ↑ 0.7
(86.6)
Household Customer Experience Measure

391 ↓ 6
(397)
Complaints

89.3 ↓ 0.4
(89.7)
Non-household Customer Experience Measure

[2] Overall Performance Assessment (OPA) The OPA is a points based measure that scores our performance across activities essential to maintaining levels of customer service and environmental protection.

[3] Customer contacts are when a customer has reached out to us relating to an issue that has arisen or caused them concern.

OPERATIONAL

99.93% ↑ 0.01
(99.92%)
Drinking water compliance

96.7% ↑ 0.05
(96.2%)
Waste water compliance

454 Ml/d[4] ↓ 8 Ml/d
(462 Ml/d)
Leakage

[4] Million litres per day

4[6] ↓ 11
(15)

[6] (Category 1 and 2)

5,047 ↓ 1,434
(6,481)
Interruptions to supply[5]

[5] Greater than 6 hours

199[7] ↑ 3
(196)

[7] (Category 1 – 3)

Environmental Pollution Incidents

PEOPLE AS OF 31 MARCH 2025

4,849
People

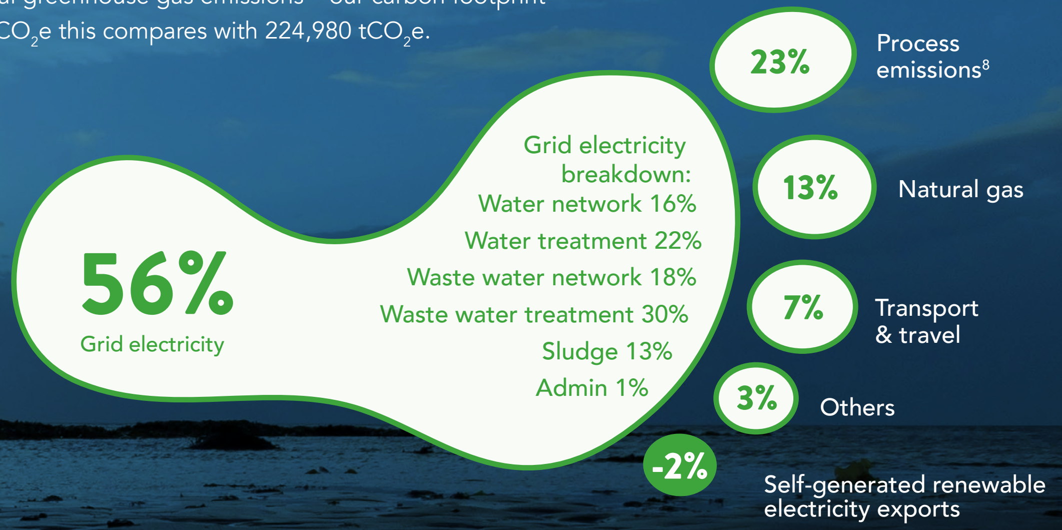
272
Apprentices and Graduates scheme

REGULATED COMPANY

CARBON FOOTPRINT

Reducing emissions

Our operational greenhouse gas emissions – our carbon footprint - was 220,434 tCO_2e this compares with 224,980 tCO_2e.



[8] The methane and nitrous oxide emissions from the biological treatment of waste water.

SCOTTISH WATER: GROUP FINANCIAL HIGHLIGHTS

£1.09bn ↑ £0.07bn
Invested in capital and repairs

	Regulated Company		Group	
Revenue	£1,579m (2024: £1,449m)	↑ £130m or 9%	£2,087m (2024: £1,935m)	↑ £152m or 8%
Surplus before tax	£62m (2024: £36m)	↑ £26m or 72%	£85m (2024: £55m)	↑ £30m or 55%
Capital Additions	£778m (2024: £696m)	↑ £82m or 12%	£782m (2024: £703m)	↑ £79m or 11%
Cash Balance[9]	£136m (2024: £280m)	↓ £144m or 51%	£270m (2024: £362m)	↓ £92m or 25%

Further info can be found in financial sustainability chapter on pages 50 to 60.

[9] Our risk appetite is that we should always have immediate access to a minimum of approximately four weeks of operating cash to the regulated business from the group (excluding Business Stream) to enable us to protect the organisation from unplanned shocks and potential shortfalls in revenue

CHAIR'S STATEMENT DEIRDRE MICHIE OBE

This year, Scottish Water has delivered its best performance to date – an excellent accomplishment given the significant challenges continuing to face the water sector. This success is a direct result of our highly skilled and dedicated workforce, who work tirelessly, in all conditions, to serve our customers day and night. I extend my sincere gratitude to all our people for everything they do.

A remarkable journey

One of the reasons I was eager to join the Board was Scottish Water's remarkable journey since its formation in 2002. From being at the bottom of the league table of UK water companies then, to being a leading and most trusted utility today, this transformation is something in which everyone in Scotland should take immense pride. This success is also down to the unique business model that Scottish Water operates within. We are publicly owned, independently regulated, and commercially run. Moreover, every penny of surplus is reinvested in our people, assets and services.

This, combined with the stability of a six-year regulatory period and with strong cross party support for the Scottish Water model enables pursuit of a shared goal: delivering the best water and waste water services at the lowest possible price for the people of Scotland, while maintaining and enhancing the quality of the environment.

I am determined that the way the Board works is transparent, responsible and bold in its decision making informed by extensive engagement with customers, communities and stakeholders. We have continued to get out and about, holding meetings and paying visits to a number of our sites across the country. It is hugely beneficial to see and hear first-hand the issues and challenges our people, customers and stakeholders face and how they play their part finding lasting solutions, It also helps us to really appreciate the positive activities and contribution that Scottish Water continues to deliver round the clock every day of the year.

The UK's most trusted utility

Customer satisfaction rates are consistently among the highest in the UK utilities sector, and I was delighted to see us jointly rated as the most trusted utility in the most recent UK Customer Satisfaction Institute Index. Despite needing to increase investment to keep pace with more severe weather conditions, ageing assets and a changing and growing population, these satisfaction rates demonstrate how we are trusted to deliver value for money and do what's best for our customers and communities.

Delivering world-class water and supporting sustainable communities

Scotland's drinking water quality remains among the best in the world and is a source of national pride. The quality of water in our environment is also high, with 87% of Scotland's water bodies rated as 'good' or 'better' for water quality by SEPA.

JOINT
1st
FOR OVERALL TRUST IN THE UTILITIES SECTOR[8]

NUMBER
1
UK'S TOP RATED WATER COMPANY

[8] UK Customer Satisfaction Index (UKCSI) ranking of national measure of customer satisfaction from 10,000 customers to rate their experiences of dealing with 200 organisations across 13 sectors.

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Beyond providing essential services, Scottish Water plays a vital role in Scotland's economic and environmental landscape. With over 4,800 employees across the country – Scottish Water is deeply embedded in the communities we serve. Our investment extends further through our supply chain, supporting over 5,000 colleagues, 70% of whom are based in Scotland, as part of a £1 billion plus annual investment and repair programme.

Scotland's water and waste water services also play a crucial role in maximizing our renewable energy potential, including hydrogen production and energy recovery from waste. Scottish Water is determined to play its full part in these areas and is involved in discussions with Government to ensure we can maximise our potential here.

Balancing household bills and investment needs

To ensure we have the resources we need to continue to deliver the high class water and waste water services our customers deserve, the Board agreed to increase customer charges in April 2025 by 9.9% - an average of 85p per week (£44 a year). Increasing charges is never an easy decision to take, and we know that for many, any increase can be a struggle. The fact that more than 50% of Scottish households do get support with their water bills helps to offset the impacts for many. However, these increases are needed as it simply would not be fair to leave future generations suffering lower standards, and potentially bigger increases in bills, as a consequence of investing too little today.

A high-performance culture

Throughout the year, the Board has worked closely with Scottish Water's Executive Leadership Team, both challenging and supporting the difficult decisions that shape our future. Scottish Water is also engaging directly with communities across Scotland, recognising that a local, catchment-based

approach – where we look at issues specific to areas which vary across the country depending on matters like geography and population – is essential for making the most effective and sustainable decisions.

Board changes

I am delighted to welcome two new Non-Executive Board Members, Allan Clow, who joined in February, and Belinda Howell, who will take up her role in September. Both bring a wealth of experience from various industries.

Looking forward

While there is much to celebrate we are also operating in very uncertain times. Global political shifts, the increasing impact of climate change, unpredictable weather patterns, and financial pressures on households all present challenges that require thoughtful navigation.

Our recently published Long-Term Strategy sets out the three key issues we face out to 2050, including dealing with more extreme weather, replacing assets as they age and responding to population changes.

All this means that the next strategic review of charges, which will be determined by our independent economic regulator and cover the period 2027 to 2033, will be crucial to balancing affordability for our customers with enabling the appropriate investment to ensure Scotland's water and waste water services remain a source of national pride.

To do this we must be relentlessly ambitious, embrace innovation, work ever more closely with other organisations, and with our customers and communities. We know too that bold decisions will be needed if we are to ensure our services remain resilient to the various headwinds we are facing.

As we look to the year ahead, every one of us at Scottish Water is committed to delivering for our customers and the environment and doing all we can to help contribute to Scotland's growth and success. These are stretching and demanding times that also offer up opportunities to make a positive difference – implementing innovative technologies, enhancing customer service, and leading sustainability efforts. It's a privilege to chair the Board of Scottish Water - which is a great company with an amazing team who are proud to serve the people of Scotland.

Deirdre Michie
June 2025

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CEO STATEMENT ALEX PLANT

Record customer satisfaction, lower leakage levels, fewer serious environmental incidents and excellent delivery of our £1.09 billion infrastructure investment programme meant 2024/25 saw Scottish Water record its best performance ever. This achievement reflects the high-performance culture we have in Scottish Water and the hard work of all our colleagues.

Delivering for Scotland

Our Overall Performance Assessment (OPA) score – which we use to score our performance across a range of activities vital to maintaining high standards of customer service and to protect the environment – reached its highest ever level since Scottish Water was formed in 2002.

This is a reflection of our continued focus on delivering excellence across all parts of the organisation. In our latest customer experience survey, which includes feedback from 69,500 customers, more than 94% rated Scottish Water positively. This overall performance is a major achievement and one which everyone at Scottish Water and the supply and delivery partners we work alongside should be immensely proud of.

A key part of our operational success has been a significant reduction in leakage levels compared to last year – an achievement made possible by sustained long-term investment, putting additional resources in this year, and a renewed focus on forward planning and adopting new approaches to managing our network. After last year's leakage increase, we are confident we are now back on our long-term trend of delivering year-on-year reductions.

There continues to be a welcome increased public scrutiny of the quality of water in our environment, particularly around the impact of combined sewer overflows (CSOs). CSOs play a critical role in times of intense rainfall by diverting excess waste water into the environment rather than seeing this back up into people's homes and business premises. When CSOs are used as they are designed for, in times of heavy rainfall, around 99% of what is discharged is water, not sewage, and at this level of dilution there should not be any environmental harm.

To better understand the performance of CSOs, we committed to installing 1,000 monitors in 2024 and I am pleased to say this was delivered. We also made the information these monitors provide publicly available through a dedicated online portal. By the end of 2025 we expect to have 1,700 monitors in place providing 45% coverage of all CSOs. Our approach is to invest prudently, by putting monitors in places where the information they provide can have the biggest environmental benefit, rather than seeking blanket coverage.

I was also delighted to see a significant fall in the more serious Environmental Pollution Incidents, which occur when a watercourse is polluted due to discharges from a water asset or, more commonly, a waste water asset. This year we recorded our fewest serious category waste water EPIs for this regulatory period. This is part of a long-term trend which has seen EPIs fall 75% since the 2010 period - down to four from 11 last year. Whilst this represents good progress, our longer-term aim is to have zero Category 1 and 2 EPIs to ensure we do all we can to support a flourishing Scotland.

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In other areas, interruptions to customer supplies fell 22% compared to last year down from 6,481 to 5,057 (those greater than six hours). We have been focusing on increasing the use of alternative supply options which offer access to other parts of the network when incidents happen to minimise impact on customers. Digital advances have also helped us improve the quality and quantity of data our operational teams can access, and we have also increased the amount of support available to frontline teams who work around the clock to keep customers in supply.

Our ownership model means that any surpluses we make are reinvested in our assets and services. This has helped us to deliver year-on-year investment which is delivering benefits to every part of Scotland. This ranges from major urban infrastructure to support growth and make supplies more resilient to critical upgrades to help maintain water quality and supply in island communities.

Investing in and for Scotland

We have projects throughout Scotland delivering multiple benefits, such as protecting homes from flooding in south Edinburgh, upgrading water treatment processes in Shetland and enabling significant housing growth in Perth with the installation of a new super sewer.

However, as in previous years, our ageing assets, and the challenges of unpredictable weather, mean we are continuing to spend more on repairs which increased 8% year-on-year. This reinforces the need for continuing sustainable investment across our infrastructure.

Future-proofing Scotland's Water Infrastructure

Our recently published **Long-Term Strategy** highlights the scale of adaptation needed in the face of the changing climate. It also makes clear that we can no longer just engineer our way out of trouble. We estimate that, without other changes we may need to double our level of investment over the next 25 years. The Strategy therefore proposes that we focus on reducing demand, driving productivity, innovating, and collaborating with organisations across Scotland. If we can deliver against these three approaches, we can reduce the amount of investment we will otherwise need to find. It will also help us focus on new and exciting opportunities to help Scotland fully harness the economic value of its water.

To secure the future of Scotland's water services, we must think creatively, embrace new ways of working, and ensure that every pound invested delivers maximum value for customers and communities. Achieving this will require an approach where organisations across Scotland work together in partnership with Scottish Water. That should include local authorities, central Government and its agencies, farmers, community groups, landowners, developers, and educators. Together we can drive meaningful progress toward a sustainable and resilient water system – recognising that addressing problems at source is usually cheaper and more effective than addressing them at the "end of the pipe".

To support further improvements and help customers better understand their own water use, we are installing around 2,000 smart monitors in communities in Dundee as part of a pilot programme. The information we gather from these monitors should help us find and fix leaks on our network. It will also give customers information on their water use, helping them find practical ways to reduce demand. This is important because the average person in Scotland uses much more water than people in other parts of the UK. By reducing waste and water use we will also reduce demand on our system, our operational costs, and energy costs for customers and Scottish Water. It is a win-win.

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Creating wider value

Looking to this next year and beyond we will place an even greater focus on delivering wider social, environmental, and economic benefits through our investments. For every £1 Scottish Water invests, £3 of value is created - with nearly 90% of our direct supply chain spending with companies operating in Scotland. Our work supports the employment of 21,000 people directly and indirectly generating £4.5 billion of turnover for the Scottish economy every year.

As we gear up for the next regulatory period, we are challenging ourselves to ensure every pound we spend contributes not just to infrastructure but to natural capital, biodiversity, social amenity, and economic growth. Our work should help unlock housing developments, support local economies including business growth, and create long-term benefits beyond the water sector alone.

Making progress towards net zero

As well as focusing on adaptation to climate change, we must also remain committed to doing all we can to mitigate the impact we have on the climate. I am hugely proud of the progress we have already made towards achieving net zero emissions by 2040. We remain at the forefront of Scotland's renewables future, seeking to align our work with colleagues in the energy sector to drive sustainability. Whether it's using waste water effluent in green hydrogen production, harnessing heat from sewers or investing in Artificial Intelligence to operate and monitor smart water networks and reduce both cost and carbon, we are embracing innovation to deliver a smarter, more resilient service.

FOR EVERY
£1
SCOTTISH WATER INVESTS
£3
OF VALUE IS CREATED

We operate a vast array of assets that we know can be adapted to help play a part in creating a greener and more sustainable Scotland. We now host over 830GWh of large-scale renewable wind power on our land for large energy producers - equivalent to the domestic electricity consumption of Glasgow in 2023[10].

It has been a record year for us in terms of woodland creation and peatland restoration – delivering and signing off more projects in these areas than ever. This includes the announcement of our biggest partnership yet, with Forestry and Land Scotland, to create one of Europe's largest new woodlands and restore several hundred hectares of peatland around Loch Katrine. This work alone is expected to capture up to 1 million tonnes of carbon over 60 years and will bring a landscape boost to biodiversity. Crucially it will also enhance the quality and resilience of the water supply for 1.3 million customers across Glasgow and surrounding areas.

As we look to the future, our commitment to sustainability and innovation has never been stronger. By working together, we can adapt to the challenges of climate change, enhance Scotland's natural environment, and ensure that water services continue to support communities, businesses, and the nation's prosperity for generations to come.

Investing in our people

We are nothing without our people and we had a strong response to our recent staff survey, with an increased level of participation enabling us to gain valuable feedback. We have faced some challenges in settling the Pay Award for 2024/25 which has been disappointing. Our above-inflation pay offer is fair and progressive, prioritising the highest percentage increases in the business for those on the lowest salary grades.

We will always ensure the well-being of our people is a priority and will continue to invest in the thousands of people we work with – both directly and those partners in delivery, supply and beyond. On our graduate and modern apprentice schemes we had 272 people employed this year, with a number reaching the finals of various skills awards, a great example of the talent and dedication within our teams.

We have the right people in place across our organisation and at all levels with the right mindsets and values. They are driving innovation, taking bolder steps and building new partnerships, all in pursuit of our clear purpose and ambitions. This allows us to continue to deliver the high standards people rightly expect of us, whilst also looking at every opportunity to improve further, and do all we can to support a flourishing Scotland now and in the future.

Alex Plant
June 2025

[10] Subnational electricity consumption, Great Britain, 2005 - 2023 ROW 373, COLUMN K

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DELIVERING MINISTERIAL OBJECTIVES IN THE 2021-27 REGULATORY PERIOD

Scottish Ministers set objectives for Scottish Water and for this current regulatory period, 2021-2027, they are:

Maintain and improve the security of its network and systems, to protect them from malicious attack.

Make substantive progress towards the climate change targets.

Align with the Scottish Government's circular economy strategy and assess the potential for resource recovery from waste water.

Improve compliance with environmental licences and limit the amount of plastics reaching the water environment through the sewer network.

Prepare a strategy to inform the long-term asset replacement needs ensuring asset maintenance is fully integrated in the investment programme.

Maintain or improve current levels of service over the long term, engaging to establish appropriate standards for the 2021-27 period and beyond.

Work with stakeholders to transform how rainwater and waste water are managed to improve flooding and surface water management.

Prepare and implement plans to manage its private finance initiative contracts which end in the 2021-27 period.

Identify and provide new strategic capacity to meet the demand of all new housing development and domestic requirements of commercial and industrial development.

Take an integrated and collaborative approach to decisions to maximise the impact of resources and to achieve better outcomes for people and communities.

Comply with drinking water quality duties and address failures to ensure compliance with drinking water quality standards, taking steps to improve resilience and remove lead from the network.

For the full list of Ministerial Objectives click here.

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SERVICE EXCELLENCE

Delivering for customers and communities

Customer satisfaction remained high this year. Our 2024/25 Customer Experience Survey - which measures how customers who contacted us feel about the service they received – showed us achieving our highest ever level.

Over 94% of customers told us they were happy with the service they received. This is higher than the level achieved during the Covid-19 pandemic, when customers rightly recognised how our people all went above and beyond to keep services running.

Our aspiration to deliver Service Excellence to the customers and communities of Scotland continues to drive all that we do. We do this through a range of digital and in-person routes, recognising the varying and evolving needs and expectations of our customers. We continue to listen to customers whilst committing to new digital contact channels and maintaining the in-person commitment for those customers who need to speak to us directly. We draw from the conversations we have every day with our customers to shape how we work now and what we need to change for the future.

We ask for feedback every time a customer gets in touch with us. These surveys - across all customer segments - feed into our Customer Experience Measures (CEMs).

We continually track customer views through an ongoing YouGov tracker survey with approximately 500 customers per month, to understand their perception and experience of Scottish Water. Overall satisfaction and trust have increased in 2024/2025 compared to the previous year, with reliability of service being a high scoring metric. Key drivers for customer dissatisfaction relate to taste and smell of tap water, the increase in customer charges and also on the use of combined sewer overflows.

This year we commissioned independent research to cover more strategic topics, when we asked 3,000 customers for their views. This involved a range of research approaches including online surveys, face to face interviews and focus groups. It covered a variety of topic areas including our Long-Term Strategy, potential charge increases and the introduction of smart meters for business customers. Customer feedback highlighted the importance people place on the vital water and waste water services we deliver and how we should be proactively investing to maintain current levels of service.

416
OVERALL PERFORMANCE ASSESSMENT SCORE

Record Overall Performance Assessment (OPA)

We use an Overall Performance Assessment to score our performance across a range of activities to maintain high standards. Our OPA score for the year was 416 - the highest ever recorded.

This strong result is testament to the hard work and dedication of our people, our ongoing efforts to boost the resilience of our operations, and the benefit of less disruptive weather conditions than in previous years.

FACTS

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Strong Customer Experience Measures (CEM)

During the year we received direct feedback from 69,500 customers across the country. Our **Household Customer Experience Measure (hCEM)** ended the year at 87.3 slightly higher than the same time last year and well within our target. We also saw a decrease in Service Issue Contacts, which contributed to our highest ever reported level of Customer Experience Satisfaction at 94%.

We also saw a 16% increase in 'Go the Extra Mile' (GEMS) nominations on last year – these customer-generated awards recognise Scottish Water employees and contractors who have gone the extra mile to provide an exceptional service to our customers.

FACTS

Some examples of feedback we have received from customers in the last year:

> The whole service has been almost unbelievable - particularly when compared to my dealings with other utility providers... it also made a very pleasant change to speak to people - rather than machine, or worse, automations who seem unable to make decisions. I have related my happiness to anyone prepared to listen.
> Thank you.
> **Customer, 2025**

> I wish to express my thanks to Scottish Water, your helpline staff and especially to your wonderful engineer... and I ask you pass on my thanks to him.
> **Customer, 2024**

87.3%
HOUSEHOLD CUSTOMER EXPERIENCE MEASURE (hCEM)

94%
CUSTOMER EXPERIENCE SATISFACTION

16%
INCREASE IN 'GO THE EXTRA MILE' (GEMS)

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82.9

DEVELOPMENT CUSTOMER EXPERIENCE MEASURE (dCEM)

89.3

NON-HOUSEHOLD CUSTOMER EXPERIENCE MEASURE (nhCEM)

Conversely, our customer perception rating dropped 3% (to 71.4%) for the year, with feedback attributing this to ongoing media coverage on some of the negative aspects of the wider UK water sector including executive pay, use of Combined Sewer Overflows (CSOs) and pollution.

Our **non-household CEM (nhCEM)** was stable year-on-year at 89.3. We have started a new internal engagement programme focused on the business community to ensure we are doing all we can to support and listen to customers.

We lead the wholesale market in the UK for services to water retail businesses as measured in the latest Retailer Measure of Experience (R-MeX) - a survey where all UK licensed providers are asked for feedback on the experience provided by water wholesalers across the UK.

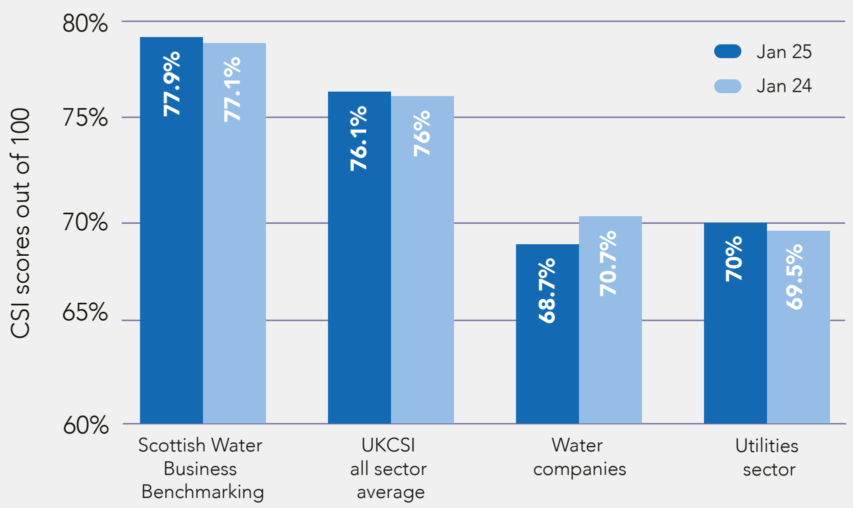
Our **Development Customer Experience Measure (dCEM)** reflects how we listen and respond to those customers and businesses who operate in the development community. This year our dCEM score ended the year at 82.9 - up from 75.9 last year. This was helped by a dedicated effort from teams across Scottish Water to ensure we are supporting sustainable growth.

The UK Customer Satisfaction Index (UKCSI) is independently conducted by the Institute of Customer Service, and benchmarks customer satisfaction by asking over 10,000 customers to rate their experiences of dealing with over 200 organisations across 13 sectors.

Scottish Water continues to lead the Water Sector overall. We are currently ranked 3rd in the wider Utilities Sector in the overall Satisfaction Index and we are ranked joint first for trust specifically. Across all sectors and all organisations, we rank fifth amongst Scottish respondents for overall Satisfaction Index.

CSI Score

Scottish Water's Business Benchmarking index score is 77.9, up by 0.8 points compared to Jan 2024, 1.8 points above the UKCSI all-sector average and 9.2 points above the average of water companies



Every customer contact counts

Making it easier for our customers to contact and get information from Scottish Water is a priority. We enhanced training for our Customer Experience Centre (CEC) staff to ensure customers receive updates and resolve issues more quickly.

We made significant progress implementing new technology for data sharing between teams and established a new Customer Awareness team to manage proactive updates to customers and improve customer communication. This includes a direct SMS messaging service, which now has an average of 8,100 sign-ups per month, with 574,803 messages sent by the year-end, compared to 11,000 last year. We also introduced a new management system to enhance our social media reach, providing 24/7 service updates on our website and social media channels. Combined, these initiatives led to a 6.7% reduction in reactive customer contacts to our CEC, likely due to better access to information during incidents.

FOCUS
Customer Experience

Challenges

We have made significant improvements to our customer insights, notably in relation to how we manage and access information to inform day-to-day and strategic decision making. However, we continue to be largely reliant on customers reporting issues on our extensive network.

We are using a variety of technologies to more easily identify where assets are having a negative impact on customers and who those customers are. This is aimed at helping us progress towards a 'predict and protect' approach in service experience, enabling us to take action more quickly to reduce or remove customer impacts.

FOCUS
Storm Eowyn

AVERAGE OF **8,100** SIGN-UPS PER MONTH

574,803 MESSAGES SENT BY THE YEAR-END

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1st

PLACE IN BOTH R-MeX SURVEYS

Wholesale

We are the Wholesaler to 21 Licensed Providers (LPs) who operate in the water retail market for business customers in Scotland. The market serves 225,835 business properties with a water or a waste water service. We have continued to provide a high level of service to our LPs and their customers whilst exploring where we can use technology to further improve the service in the future.

We have moved from annual to six-monthly R-MeX (Retailer Measure of Experience) surveys to assess our service to LPs and to provide a benchmark against our peers in other parts of the UK. After being ranked second out of 16 wholesalers last year we moved into first place in both surveys this year with particularly strong ratings for Engagement and Support. We have delivered significant improvements to our online portals for LPs, enabling them to support their customers more efficiently and effectively.

We need to consider how we collaborate with Licensed Providers to help business customers to improve their water efficiency, to save them money and to help Scotland adapt to the pressures of climate change. We have developed plans for deploying smart metering technology to business customers in 2025/26.

A successful pilot in Inverness and Orkney has highlighted the potential of this new technology to help customers manage their consumption and reduce their bills. It will also help reduce leakage by giving better visibility of real-time usage. Smart metering for businesses will be a key part of our ongoing plans to reduce demand and carbon emissions to help us adapt as well as enabling us to provide a more proactive service to customers. We are working with other market stakeholders to agree roles and responsibilities for this transformative technology to ensure the customer benefits are realised.

We have made further progress in improving our first-time resolution of contacts from Licensed Providers, although not to the extent we had hoped. Customer experience ratings from business customers we deal with remains lower than from household customers who have had the equivalent contact. Work will continue in 2025/26 to understand the reasons for this gap and look at what action is needed to address this. We are also simplifying our IT systems and processes to improve the reliability of our services and our ability to respond to new demands.

Reduction in complaints

Formal Complaints (**Claims & Escalating Issues - Scottish Water**) reduced to 391, compared to 397 last year. Repeat water supply and waste water flooding continue to be the top reasons for customers requesting a complaints investigation. The reduction in formal complaints has been supported by increased focus on first time resolution and early intervention on escalating customers issues. We continue to use a new customer-led payment App for Service Standards payments which has enabled payments to reach customers almost instantaneously and restricts the need for customers to provide any bank details, something which had slowed this process previously. This has also improved data security.

Freedom of information requests

Under the Freedom of Information (Scotland) Act 2002 any person can make a request to Scottish Water for information held. We have now established a small, dedicated team to manage requests and responses. In the year we received 1,063 requests, which is consistent with the previous year. Waste water operations continue to be the top reason for requests, closely followed by flood investigation reports.

Community Empowerment Act

A single transfer was completed in the last year under the Community Empowerment (Scotland) Act 2015. The Act helps empower community bodies through the ownership or control of land and buildings. We transferred three assets as part of the same transfer at Ballachhulish North – a service reservoir, pumping station and water treatment works to the Nether Lochaber Community Association, a registered charity. We have two other sites where transfer discussions are ongoing with community groups.

Enabling responsible access

We are committed to connecting our customers and communities with their local environment and to support tourism by enabling access to our assets, where appropriate, for leisure purposes. We recognise our reservoirs provide important access to green space and that they are immensely valued by visitors. Connection with our natural environment is an essential pillar of both physical and mental wellbeing and we are conscious of the important role reservoirs play in many people's lives.

We want to play our part in educating and informing visitors about what responsible behaviour looks like, we work in partnership with others to encourage people to know before they go, plan their visit and behave responsibly. We are also committed to raising awareness and understanding of the risks water poses, and why reservoirs are different to many other bodies of water.

Working in partnership with Forestry and Land Scotland, we installed new signage at Carron Valley Reservoir highlighting local wildlife around the area and its history as well as safety measures to be aware of. The reservoir, which is over 3 miles long, was constructed in the 1930s and remains a vital part of our network, supplying water to approximately 135,000 people in the Forth Valley. The site has approximately 100,000 visitors every year. We also introduced new visitor experience signs at Milngavie Reservoirs, Craigmaddie and Mugdock, which supply water to 700,000 people in Greater Glasgow with both popular tourist attractions.

Independent Customer Group

1,063

FOI REQUESTS

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Health and safety performance

We believe the safety, health and wellbeing of our people and everyone we work with, is fundamental to our success. When we compare our Reporting of Injuries, Diseases and Dangerous Occurrences (RIDDOR) and Lost Time Accident (LTA) performance to the wider water industry, we are one of the best performing in the UK. The number of RIDDOR-reportable injuries decreased from 18 last year to 13 this year. The number of lost time incidents (LTA) remained the same at 27[11].

Despite significant effort and progress in safety systems and ways of working, the proportion of RIDDOR-reportable injuries classified as serious increased slightly from seven last year to eight in 2024/25. The number of high potential incidents remained the same as last year at seven and all of these occurred within our supply chain.

The continued occurrence of serious accidents and high-potential incidents remains unacceptable to us. In response, we refreshed our strategy and have now introduced Beyond Zero Harm as a collective industry ambition to drive meaningful change together with our partners and supply chain.

RIDDOR

13 | 18
REPORTABLE INJURIES

27 | 27
NUMBER OF LOST TIME INCIDENTS

8 | 7
REPORTABLE INJURIES CLASSIFIED SERIOUS

7 | 7
HIGH POTENTIAL INCIDENTS SERIOUS

[11] This is the number of injuries reported to the HSE under RIDDOR regulations, for every 100,000 hours worked. It is calculated by dividing the number of RIDDOR injuries by the total hours worked, then multiplying by 100,000.

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Going beyond zero harm

We are committed to working in partnership with our supply chain. To help with this we refreshed our strategy to include our partners and supply chain with the ambition to lead our industry in Scotland to go beyond zero harm. This is a commitment to exceeding the goal of simply preventing harm and achieving a zero-incident record, it aims to promote a workplace where safety is a core value which is actively promoted and practiced. Together, we aim to create safe, healthy and productive environments that enable everyone to thrive. We will move forward with these actions collectively as part of the We Care, Your Safety, Our Partnership improvement plan.

This comprehensive three-year plan will extend into the next regulatory investment period, ensuring long-term commitment and impact. Our health and safety improvement framework encompasses key projects designed to influence our organisational culture by focusing on the management approaches, leadership styles, behaviours and attitudes of everyone who works with and for us, as well as our organisation's values and the systems and processes by which work is conducted.

Our people work in demanding environments, and we aim to have committed leaders across Scottish Water, our partners, and the supply chain who treat safety as a core value. To enable this, we are introducing a leadership safety conversation framework for all senior leaders. This demonstrates a visible commitment to beyond zero harm by fostering a culture of openness and engagement to drive safety best practices. Discussions will be centred around the ethos that "no task is so important that we cannot take the time to do it safely." Additionally, all staff working for and on behalf of Scottish Water will be immersed in our safety culture and expectations from the start through the creation of a Beyond Zero Harm induction. It will set out clear health and safety expectations and the support available prior to starting work on a project.

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WATER QUALITY

99.93%

DRINKING WATER QUALITY COMPLIANCE

Supplying 'world-class' water

Our Water Quality total compliance was 99.93%, making it world-class and consistent with previous years[12].

Microbiological levels at water treatment works and service reservoirs finished close to our target levels and were improved on 2023. Our customer tap samples performed well, again 10 fewer fails than in last year, even after taking five times more samples for the recently introduced (2023) disinfection byproduct parameters of Chlorate and Halo-Acetic acids.

We saw a cool damp summer in 2024 which reduced risks from some customer tap parameters. Conversely more prolonged periods of rain tested the integrity of our tanks which store treated water to balance out demands in the network and provide resilience should a pipe burst where we have increased investment, and we are starting to see an improvement in how they perform.

Chlorate performance at customer taps was much improved this year with 11 failures in the year compared to 23 last year. While the action plan we put in place focused on improving how we manage disinfection chemicals has reduced risk in these areas, the lack of sun during the summer period also limited solar heating of these chemicals that may have contributed to this positive performance. We continue to progress further risk reduction activities.

Halo-Acetic Acid (HAA) performance remains a challenge with 12 customer tap fails in 2024 and 108 results from 27 supply systems at 80% of the regulatory standard. We have a Letter of Commitment (**Letters of Commitment**) in place with the Drinking Water Quality Regulator for Scotland (DWQR) to improve HAA performance and plan to remove two high-risk systems from supply in 2025/26 alongside other system improvements.

We have continued our work to improve the performance of Treated Water Storage Points, tanks which store treated water to balance out demands in the network and provide resilience should a pipe burst. We have over 1,200 tanks in operation which we inspect and test for ingress on a regular basis. In 2024/25 we inspected and cleaned a record number of tanks, bringing 100% of our tanks within our five-year inspection policy.

We continue to improve the resilience of water supplies, one of the biggest projects is being completed in Glasgow and Ayrshire. We are improving the water mains network in the south west of Glasgow by installing more than seven miles of new pipes. This will enable us to connect the Glasgow area's network and the system in Ayrshire to increase resilience and protect supplies for around one million customer we serve in those areas and is due to be completed in autumn 2025. The investment in new pipelines and associated infrastructure below ground will also support the continued development above ground in communities across these areas and will enable them to continue to grow and thrive.

FOCUS
New regulatory standards

[12] Following changes to the Water Quality Regulations in January 2023, which introduced seven new parameters, and the introduction of risk based sampling at customer taps a modification has been applied.

Work is also ongoing to deliver a new 14-mile trunk main from Peterhead to Ellon which will increase capacity to convey water to support growth in the area and resilience. The three year-project will see the replacement of some pipes which have been prone to bursting, causing repeated interruptions to customers. We have completed an assessment of power resilience across our water supply system and have now prioritised and commenced improvements drawing on our experiences from recent storms.

Also, in Aberdeenshire we completed the £60 million upgrade of Invercannie Water Treatment Works, increasing its operating capacity from around 35 Ml/d (mega litres of water a day) to 66 Ml/d enabling growth in the area and enabling us to treat the raw water we draw from the River Dee effectively. Climate change significantly impacts raw water resources through altered rain patterns, increased temperatures, and more frequent extreme weather events. This can lead to increased water demand, reduced river flows, and potential contamination of water sources, affecting water availability and quality.

CASE STUDY
Engineering masterpiece gets 21st century renewal

We continue to ensure we have sufficient water capacity to support new housing developments, be that through demand reduction as we have recently done on Tiree, improvements to the network or developing new supply side solutions.

CASE STUDY
Remote on popular island made more resilient

We have continued to assess our supply versus demand balance and currently estimate we have a supply deficit of 60 Ml/d - which will grow to 240 Ml/d by 2050, according to our Scottish Water Adaptation Plan (insert link). Domestic consumption of water per person remains among the highest in the UK – the English and Welsh combined average is 137 litres per day[13], while in Scotland it is 178 litres per day. Scotland currently has a per-capita consumption level that is 42% higher than customers of Severn Trent and 41%[13] higher than Yorkshire Water.

89%

SAY SCOTLAND'S WATER IS WORLD-CLASS

WORLD CLASS WATER

An independent YouGov poll found 89% of people in Scotland say the water flowing from taps in Scotland is world-class[13].

It's a source of national pride and we want to keep it that way.

For our customers, being able to rely on the continued quality of the water we supply to their homes and businesses is their highest priority.

[13] Figures from DiscoverWater (en-GB) (the numbers for Severn and Yorkshire are metered supplies)

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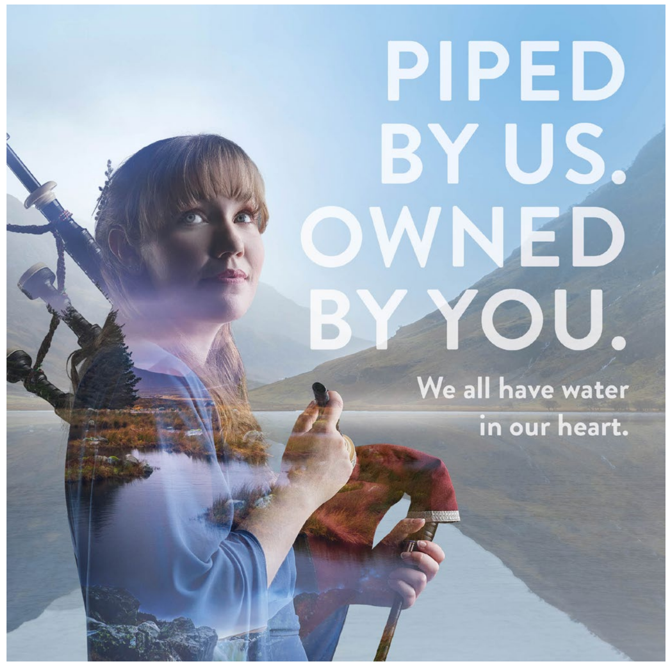
CASE STUDY
Domestic water monitoring trial in Dundee

We have developed a model to identify the correct blend of actions to close the supply-demand gap in all of our water supply zones. This considers demand-side measures such as leakage reduction, smart metering of business customers and domestic customers water efficiency. Supply-side measures such as new or expanded sources and connectivity between systems in surplus and those in deficit have also been deployed.

While we work to close the supply versus demand gap, we also continue to improve our drought resilience plans. This includes stepping up our behaviour change campaigns – including our 'Piped by us, Owned by You' campaign which reminds people we are publicly owned and customers should play a responsible owners' part - urging customers to use water wisely and play their part in helping us safeguard Scotland's precious water resources.



FOCUS
The Top 10 Top Up Taps

Our innovative network of Top Up Taps achieved a significant milestone, saving the equivalent of 15 million single-use 330ml plastic bottles.

We have now installed 131 iconic blue Top Up Taps from Lerwick in the north to Portpatrick in the South, designed to promote the use of refillable water bottles and reduce single-use plastic.

The taps are equipped with technology that tracks water usage, providing data on cost savings, plastic reduction, and water volume used.

The Top Up Tap initiative is part of our Your Water Your Life campaign, which celebrates the quality of Scotland's water and encourages environmental protection and personal health.

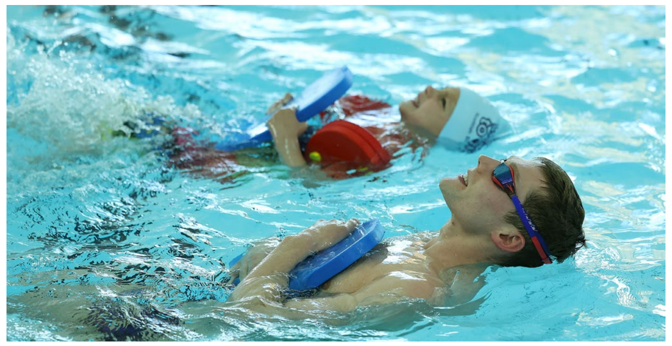
Our research has established the average household has six reusable bottles in cupboards and we are encouraging people to remove the bottles from cupboards, give them a clean and let them fulfil their destiny - to be **topped up from the tap**.

Learn to Swim

We are proud to continue our Learn to Swim partnership between Scottish Water and Scottish Swimming which is helping to provide people of all ages and abilities across Scotland with supportive and inclusive environments to learn to swim and access to gain vital basic water safety knowledge and skills.

Our vision is to create 'Generation Swim' – confident, safer and competent swimmers who will also experience wider health and social benefits swimming offers. There are currently over 83,000 children and adults taking part in Learn to Swim lessons every week. We are also proud to support the new National Primary School Swimming framework.

Safety in and around water is a key element of this partnership and we believe this is hugely important to help people be able to enjoy Scotland's miles of rivers, lochs, shorelines and reservoirs, and do so safely.



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Reducing interruptions to supply

Ensuring continuity of supply to customers remains a priority and there was an overall 22% reduction in interruptions to supply. We are always looking to improve and have stepped up our efforts to deal with a wider range of colleagues and teams to reduce interruptions to supply (ITS). Our operational teams have worked round the clock to keep properties in supply throughout all weathers. Another key focus has been better resilience planning, ensuring - where possible - access to a different supply to keep taps flowing.

The generally milder and wetter weather this year contributed to the decrease in ITS events due to burst mains, often caused during prolonged freezes or freeze-thaw events. We have also been creating and enhancing digital tools for operational teams and expanding awareness around maintaining supplies. This was achieved through several initiatives including enhancing our network contingency plans to highlight booster stations which may require resets after interruptions to the supply. There has also been an emphasis on lessons learned during interruptions to help us determine new ways of fixing bursts quicker and, ultimately, preventing them where possible. This work captured the network pipe shutdowns, back feeds which fill the network when the level of available water is low, alternative supplies available, risks and overall mains condition. This data is now provided to other colleagues to help them make more informed decisions to better determine key areas for future investment or project promotion. This includes areas where there are repeat bursts and ITS.

CASE STUDY
Collaboration and past learning keep customers in supply

In the coming year we will carry out further enhancements to the network contingency plans. A pilot project to create a 'one stop solution and recovery plan' for high-risk areas of the network has been launched and will run until autumn 2025. If successful we will look to roll this out across Scotland. We will also be ensuring all operational teams are aware of the range of tools and resources available to utilise during incidents to continue to take every measure possible to keep customers in supply.

CASE STUDY
First of its kind training academy set to make a splash

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Challenges

There were still significant issues with some rural areas of the water network where ageing assets need upgraded or replaced. The security of these supplies was at an increased risk due to population increase during the summer months, when areas see a rise in visitors and an increase in demand for water.

Much of our water network is ageing and can be complex to repair. We will need sustained ongoing above-inflation investment to ensure we are able to continue to keep interruptions as low as possible.

Extreme weather remains one of our biggest challenges and SEPA has already issued Early Warning of water scarcity across most of Scotland for this summer 2025. It said some areas had received less than half of the average rainfall for March 2025. This follows on from a dry autumn and winter. Without significant above average rainfall in spring and summer, there is an increased risk of water scarcity occurring early in the season.

In the south of Scotland there were areas that received less than a third of average rainfall. This follows on from below average rainfall over autumn and winter. Parts of Angus and Fife have now experienced 10 months of below average rainfall, receiving less than half of what's normal for March.

Without above average rainfall over spring and summer there is a greater risk of water scarcity, particularly in areas already experiencing low groundwater levels. Continued drier weather can strain local water supplies and prolonged water scarcity can also impact local ecosystems, lowering water quality – an issue we are focusing on in our **Long-Term Strategy.**

While we work to prepare for any shortage the unpredictability of the weather can make it harder to know where and when issues will arise. We are increasing the monitoring we carry out to do all we can to make sure customers are not affected.

FOCUS
New interruptions to supply metric

Leakage

We take our responsibility to reduce waste very seriously. Our water network is extensive - around 30,000 miles of underground pipes of varying ages and material and 2.6 million connections. This excludes our customers' pipework. We respond to all visible bursts and work to detect and fix leaks. We have reduced leakage by 58% over the past 15 years but need to go further.

Many of the leaks we deal with are relatively small, making them harder to find and fix. We are deploying a range of approaches and innovations to help, drawing on best practices from around the world.

Last year we were disappointed to report leakage increased for the first time in many years. This year, we have reduced leakage by 8 Ml/d, bringing it back to 454Ml/d. We are now reverting to our long-term downward trend in leakage.

This improved performance in 2024/25 was delivered by locating and repairing more leaks than in any previous year – around 30% more. We found and fixed more than 8,700 leaks, 2,600 more than in the previous year. Overall, the number of leaks repaired were smaller in volume. We expect this trend to continue, showing that it becomes harder year-on-year to drive leakage down from lower levels.

Throughout the year we have concentrated more on tracing leakage on customer supply pipes and advising and, at times, assisting customers with the work needed to reduce leaks. We estimate as much as 30% of the total leakage volume is on the customer side and have helped customers repair almost 2,500 customer-side leaks. We started using new digital tools to enable us to assess the 'whole leakage journey', improving the consumption of data to make real time decisions and to improve the accuracy of reporting.

We have also upskilled our teams working in leakage detection and repairs but given the number of properties we are now proactively visiting we know we need more skilled technicians to continue our ongoing leakage reduction. The impact of climate change and the continued ageing of our water network also presents a significant challenge, but our focus is to continue to drive reductions in leakage. We are also looking at new ways of reporting our work in this area to make it easier to see the percentage reduction, rather than just the volume.

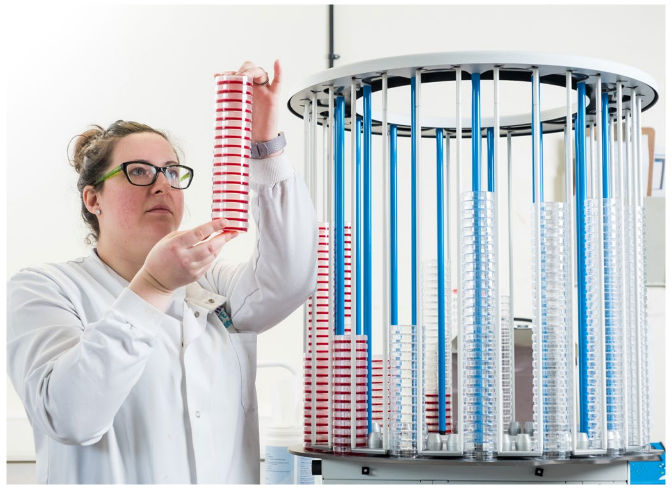
Prospects

With sustained investment in maintaining our assets, and targeted enhancements and continual improvement in the operation and optimisation of systems we expect to see water quality performance improve year-on-year. However, the rate of improvement remains at risk from a changing climate which, if impacts increase quickly, could reduce rates of progress.

Our continued focus on leakage reduction should see year-on-year reductions throughout the rest of this regulatory period and into the next. This will support minimising the increasing supply/demand deficit and overall levels of abstraction from the environment. Through our non-household smart metering roll out and household monitoring trials we will get a better understanding of customer demand and how best to encourage customers to reduce the volumes of water they use.

Our supply versus demand deficit is anticipated to continue to grow due to changing population patterns and a changing climate. In the short term we will manage this through improved drought planning, whilst we seek to close the gap through a package of demand reduction including customer campaigns to remind them of how precious water is and to use it wisely, better connectivity between supply sources and augmentation of existing supplies.

Whilst we expect interruptions to supply to remain broadly stable, we anticipate our average water mains burst rate will increase, until we begin to ramp up water mains replacement from 2027. This will likely mean that reoccurring customer interruptions may increase for the next three years, and once replacement rates increase, will start to reduce. We will focus our activities in these areas to see what further measures we can take to minimise impacts, such as looking for alternative water sources for use when interruptions occur, until we can replace the ageing water mains that are causing these problems.



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TRANSFORMING WASTE WATER SERVICES

In Scotland the River Water Quality is rated as 87% 'Excellent' or 'Good'. And our Bathing Water Performance is improving year-on-year, with 85% achieving good or excellent classification and only 2% falling below sufficient. We work hard to ensure that this beautiful environment around us is protected, now and for future generations.

Our performance across our waste water services is showing year-on-year improvement. This year we recorded 96.7% waste water compliance, a reduction in serious pollution incidents and a stable performance in odour. These improvements demonstrate how we continue to look at new ways to protect the natural environment across Scotland.

Our waste water service performance is greatly impacted by weather, notably from extremes of rainfall, particularly intense storms which can result in flooding and power cuts. We are working hard to improve the resilience of our assets to continue to deliver service under these extreme weather events, protecting customer from flooding and the environment from service failure.

CASE STUDY
Increase in the number of named storms

[14] Check the weather, check the water urges SEPA, with water quality information at your fingertips as Scotland's bathing waters season begins | Beta | SEPA | Scottish Environment Protection Agency.

Managing rainwater

Our combined network collects and transports rainwater away from properties, collecting rainwater run-off from roofs, gardens, roads and public spaces. Historic expansion of our towns and cities has led to loss of green space and this combined with more intense rain leads to more rainwater arriving faster into our networks. What happens above the ground really impacts what happens under the ground. This underlines the importance of us working in partnership with local authorities to jointly plan and prepare for the rainwater.

Over the last 20 years we have established three drainage partnerships in Glasgow, Edinburgh and the Lothians and more recently this year in Dundee. We are actively engaging more widely to further develop this approach. These partnerships will drive improvements using blue-green infrastructure - natural and semi-natural areas, including both water and land based features, designed to deliver benefits to people and the environment such as improved water management and enhanced biodiversity - which will help delay or divert rainwater away from our network leading to better use of our network capacity, consequently leading to less sewer flooding and fewer overflows into the environment.

CASE STUDY
Sustainable solutions at former school site

To help seek new opportunities to create large-scale 'blue-green' solutions, we continue to promote surface water removal in tactical flooding projects. We are sponsoring a PhD student with the Royal Botanical Gardens Edinburgh as part of a 'Plans with Purpose' programme to advance our understanding of how plants and other wildlife can help reduce surface water.

Keeping sewers flowing

When customers flush wipes, sanitary products and other plastics they cause blockages in our sewers which can lead to flooding. Our Nature Calls campaign urges customers to bin wipes and other bathroom waste items to help prevent sewer blockages and flooding. We promote the campaign on national and local TV, radio, and social media to raise awareness. We visited 11 locations, using street stencils, posters, geo-targeted ads, and radio spots before hosting supermarket events to engage residents and distribute reusable cotton wipes, bathroom bins and gunk pots (container for storage of cooled fats, oils and grease from cooking which when harden can be put in the bin). Since the campaign launched three years ago blockages have reduced by 5.9%. The campaign will be expanded this coming year to reach 15 other towns and cities to further drive behaviour change and protect Scotland's environment.

Work has been ongoing to reduce the impact of fat, oil, and grease-related blockages. We have visited restaurants, takeaways, and organisations with canteens that serve hot food to discuss their obligation to fit and maintain appropriate grease traps to prevent fatbergs, build ups of fats, oils and grease in the sewer network which can cause flooding and pollution. We continue to look to reduce these incidents using advances in monitoring technology and calling for a ban on wet wipes.

CASE STUDY
Sewer teams leave their mark

Transforming sewer systems

We have invested almost £3 billion in improving and maintaining Scotland's public sewer systems and infrastructure over the past decade, improving more than 279 overflows and more than 100 waste water treatment works in our last two regulatory periods. We know we need to balance ongoing investment in monitoring with investment in water quality while also ensuring we invest customers' money where it will have the greatest impact.

CASE STUDY
Engineering projects

FOCUS
Tackling flooding

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4
CATEGORY 1 AND 2 EPIS

62%
EPIS IN THE SEWER NETWORK WERE RELATED TO BLOCKAGES CAUSED BY WIPES AND SANITARY PRODUCTS

£2.7bn
INVESTED TO IMPROVE AND MAINTAIN SCOTLAND'S PUBLIC DRAINAGE SYSTEM

Reducing Environmental Pollution Incidents (EPIs)

We manage our assets with a focus on preventing environmental impacts. We operate thousands of water and waste water treatment works, pumping stations, and tens of thousands of miles of water and sewer pipes. With such a large asset base, Environmental Pollution Incidents (EPIs) can occur. Most incidents result from sewer blockages and others can occur due to faults at an asset. We are reacting to blockages quicker and earlier, aided by enhanced monitoring and improved processes.

Over the past year there has been a decrease in the more serious Category 1 and 2 EPIs, down to 4 compared to 11 last year, mostly in waste water.

Most (62%) EPIs in the sewer network were related to blockages caused by sewer-related debris such as wipes and sanitary products. Sewer blockages are more likely during extreme weather events with prolonged and heavy rainfall, if the sewer blocks it can lead to sewer flooding and overflows operating early.

There has been a slight rise in the less serious Category 3 EPIs, up by 14 to 199 this year. Increased monitoring has helped identify six EPIs when monitors we have in place gave us data which enabled us to take pre-emptive action. We are also seeing an increase in EPIs caused by the deteriorating quality of ageing assets, which require increased investment to find lasting solutions. In the water network, there has been an increase in EPIs linked to burst water mains, which cause a discharge to nearby watercourses. In waste water, we have seen more incidents due to burst rising mains and sewer collapses.

We are increasing our focus on reducing the number of incidents on our waste water network through increased use of intelligence, including real-time monitors and more targeted planned maintenance. Progress has been made this year as part of our ongoing Improving Urban Waters Routemap, and we are gaining data-driven insights that will help us become more proactive in preventing incidents.

FACTS

Improving our urban waters

We need to balance investment in monitoring with investment in improving water quality – the latter is what drives real change in environmental performance. We have a responsibility to invest customers' money where it will have the greatest impact. Over the past decade we have invested £2.7 billion to improve and maintain Scotland's public drainage system and infrastructure, contributing to the health of the country's waterbodies. Since 2015 we worked with SEPA and studied the impact our assets were having on water quality and know there is more to do. The **Improving Urban Waters Routemap** was published in 2021 and sets out a range of improvement activities.

FACTS

Progress towards objectives

A new team was created to assess and respond to alarms from all our new and existing monitors on our network Combined Sewer Overflows. On the ground these team members investigate both alarms and customer enquiries and help us to get to the source of the issue quickly and efficiently. This team undertake proactive burn walking, more targeted CSO planned maintenance and fitting of depth monitors within the sewer network, all of which help us to reduce the risk of EPIs.

We achieved our commitment to install 1,000 event duration monitors on our waste water network by the end of 2024 – meaning more than 30% of our overflows now being monitored.

Our new **Near Real Time Overflow Map** provides customers with near-real-time information on when and where these 1000 overflows are operating and where recent activity has occurred. We've published updated information on overflow events on our website.

We are making good progress in delivering investment to upgrade and improve high priority overflows and developing solutions at the overflows that we've prioritised with SEPA. Of the 109 assets on the high priority list for investment, 21 of the projects have been addressed by better information and operational solutions, three projects have been delivered and 52 are expected to be delivered by the end of 2027.

FACTS

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96.7%
WASTE WATER COMPLIANCE

50%
REDUCTION IN ENERGY USE AT OUR LATEST WASTE WATER TREATMENT WORKS

Waste water treatment and pumping

Our waste water compliance rate has improved to 96.7% over the past year, with 18 failing works year-to-date, compared to a 96.2% compliance rate and 22 failing works in 2023/24. We continue to enhance our approach to waste water operations by focusing on improving digital capabilities, which enables us to manage changes proactively and predictively before they escalate into issues.

At three waste water sites, our operations teams can now access predicted ammonia levels up to six hours in advance, facilitating effective risk management. Additionally, scientific services can utilise forecasts of sample quantities, thereby enhancing planning and minimising waste. This integration of advanced analytics marks a significant advancement in utilising data to improve decision making, operational efficiency, and optimisation.

One of our biggest investment projects opened this year – our new waste water treatment works in Winchburgh in West Lothian, ready to support much-needed new homes and enabling sustainable economic growth. The site uses innovative Nereda treatment technology which reduces energy use by up to 50% compared to traditional waste water processes, enables more waste water to be treated faster and with fewer chemicals, and in a smaller site area and with a much-reduced carbon footprint.

This project reflects a big step forward in driving down carbon emissions in construction and in operation without compromising on quality. We used low carbon stainless steel rather than concrete for the main tanks, reduced excavation, and deployed off-site fabrication. Solar generation has also been fitted to the roof of the site's control building to meet a significant part of the site's remaining energy needs.

We are also part of the **River Basin Management Plan (RBMP)**, a long-term and multi-sector initiative to improve Scotland's water environment for the benefit of people, wildlife and the economy and overseen by SEPA on behalf of the Scottish Government. We have focused driving the installation of chemical dosing units at 36 waste water treatment works to remove phosphorus and improve the quality rating of the nearby rivers. We predict that we'll save 2 million kg Co2 of carbon when compared to traditional construction techniques and solutions. We are also embracing timber and recycled material kiosks as well as low-carbon concrete which will significantly reduce emissions.

Prospects

We want to continue to lead the transformation of the management of surface water, working in partnership with more Local Authorities as well as SEPA, developers, communities and others. We will continue to look at ways to promote nature-based solutions and drive innovative solutions to reduce flooding and pollution incidents.

Our waste water projects will continue to support our drive to improve performance and increase sustainability; these include activity designed to optimise energy and chemical use, which will help reduce our environmental footprint. Work is also being rolled out to expand monitoring technology which provides operators with real-time insight into the quality of final effluent from waste water treatment works.

Waste water from 37% of our customers (and 75% of the sludge bioresource in Scotland) is currently managed through seven long-term Private Finance Initiatives (PFI) contracts, which are now approaching the end of their contracts. We are preparing for the transfer of Dalmuir and Daldowie PFIs in 2026, which are major elements of the Greater Glasgow service. Dalmuir treats waste water for a population of 539,000 and is the third largest waste water treatment works in Scotland, and Daldowie, that treats over 50% of Scotland's bioresource. Teams are in place to manage service risk and maintain safety during the transfer and integrating the transferring teams into Scottish Water is crucial to achieving this. Proactive asset maintenance is key for these sites which have a significantly different risk profile to our current waste water asset base.

Following the transfers, four of the remaining five PFI contracts are due to expire in our next regulatory period with future service plans and operational cost estimates prepared to ensure the best value from contract expiry.

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LEADING ON RESEARCH AND INNOVATION

We are committed to providing a sustainable, high-quality, and affordable service. Fresh thinking and innovation help us meet customer expectations and tackle emerging challenges. Our focused Research and Innovation programme aims to be world-leading in the water sector. We continue to adopt new technologies and foster a culture that embraces improvement, enabling us to make bold, ambitious decisions.

A key area of focus is research into PFAS (per- and polyfluoroalkyl substances), a group of thousands of man-made chemicals found in many products and linked to potential health risks. Known as "forever chemicals" due to their persistence in the environment, PFAS are a growing concern. Our Scientific Services team's Organics Department has gained United Kingdom Accreditation Service (UKAS) accreditation for a pioneering method that tests for 47 PFAS compounds. This protocol has some of the lowest detection limits in Europe, and further research is underway to understand the impact of these substances on water supplies.

We are also the first UK water company – and among the first in Europe – to receive UKAS accreditation for a new method to detect viruses in water. This will be used at our laboratories in Edinburgh and Inverness to identify potential viral contamination. It enhances our existing suite of analytical tools that ensure the continued high quality of Scotland's drinking water.

We are exploring more sustainable ways to treat bioresources. Our current systems – including digestion, holding tanks, centrifuges, and thickening – ensure effective treatment and compliance with standards. These are supported by established outlets such as agriculture and land restoration. Recognising that future requirements may change, our Research and Innovation team is evaluating Advanced Thermal Conversion (ATC) technologies.

Early findings suggest these methods can destroy complex organic pollutants and recover valuable resources. ATC could provide alternatives to land application by converting bioresources into outputs for energy production, soil improvement, nutrient recovery, and industrial use. By adopting ATC, we aim to manage contaminants more effectively while improving the sustainability and efficiency of our services.

ANNUAL REPORT & ACCOUNTS 2024/25 PERFORMANCE AND PROSPECTS

Enabling sustainable and inclusive economic growth

We increased our focus on social value - the social, environmental, and economic impact of what we do beyond the core service of providing water and removing waste water which create positive outcomes for communities and the environment.

As one of the largest infrastructure investors in Scotland, we commissioned an independent assessment to fully understand our impact on Scotland's economy in terms of economic output, jobs, and wages. This was calculated using Scottish Water's financial and procurement data and applied to the Scottish Government's macroeconomic impact model.

Scotland's population is projected to grow to 5.8 million people by the middle of 2047. That is a 6.2% increase on the current population. In addition, there is evidence of more significant growth in some eastern areas of Scotland with regions such as East and West Lothian experiencing 28% and 27% population increases respectively between 1991 and 2020[15].

In contrast, areas such as Inverclyde have seen population declines, with a drop of over 20% in the same period[16]. The importance of recognising these trends and proactively responding to them is critical to Scottish Water achieving our objectives – and ensuring we play our part in helping Scotland flourish.

We continue our commitment to contributing towards ensuring Scotland flourishes by investing in water, waste and surface water assets to enable housing and other economic developments. In the last year we completed 14,452 new water connections and 10,967 waste and surface water connections. Water connections have remained stable compared to the previous year whereas the waste and surface water connection figures have reduced by 15%. The volume of applications received has continued to remain relatively static year-on-year with 4,882 technical applications received in 2024/25 compared to 4,998 in 2023/24 and 4,801 the previous year.

The development market slowed down in the year and the latest Scottish Government figures, released in March 2025 reported a 10% reduction in the number of house completions. There was also a 12% reduction in the number of new housing developments in the 12 months ending September 2024.

The volume of open and in progress applications continues to grow. This reflects the sustained volume of new applications year-on-year but reflects the reduction in connections and house completions due to longer build out timeframes.

Generating social value

WE SUPPORT THE EMPLOYMENT OF AROUND
21,000
PEOPLE DIRECTLY AND INDIRECTLY AND GENERATE
£4.5bn
ANNUALLY FOR SCOTLAND'S ECONOMY

WE SUPPORT HIGH-VALUE JOBS IN ENGINEERING, DATA AND TECHNOLOGY

FOR EVERY
£1
SCOTTISH WATER INVESTS
£3
OF VALUE IS CREATED

EACH DIRECT JOB WE CREATE SUPPORTS
4
MORE THAN THE SCOTTISH OIL, GAS AND POWER SECTORS
(PER SCOTTISH GOVERNMENT MULTIPLIERS)

NEARLY
90%
OF OUR DIRECT SUPPLY CHAIN SPENDING IS WITH COMPANIES OPERATING IN SCOTLAND[17]

OUR WATER INDUSTRY JOBS ARE CONCENTRATED IN TWO OF SCOTLAND'S MOST DEPRIVED AREAS:
GLASGOW
(55% IN SIMD 1–2 FOR ECONOMIC DEPRIVATION)
HIGHLANDS
(62% IN SIMD 1–2 FOR ACCESSIBILITY)

15 National Records of Scotland, January 2025 – nrscotland.gov.uk).
16 Scottish Government Website – Independent Report "Internal migration in Scotland and the UK: trends and policy lessons" 2020).
17 There are multiple levels of suppliers between Scottish Water and the source of raw materials like steel and electronics used, which can span many countries.

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BEYOND NET ZERO EMISSIONS

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10,892 tCO_2e OF REDUCTION ACTIVITIES.

We are committed to addressing the climate change challenge – we will do this by mitigating and achieving net zero emissions and adapting to deliver a reliable, resilient and sustainable service for Scotland. Since the introduction of our Net Zero Routemap we have achieved cumulative emission reductions of 38,615 tCO_2e since 2021 which is in line with forecasts. In 2024/25, we delivered 10,892 tCO_2e[18] of reduction activities. This keeps us on track to meet our target to be net zero by 2040.

Since the publication of our **Climate Change Adaptation Plan** which outlines the efforts it will take to make services and assets resilient to the impacts of climate change, we have focused on building resilience into our operations and investment plans. But, with growing impacts on assets and services from the changing climate, we know we need to go further and faster in adapting our assets and services to ensure they remain reliable, resilient and sustainable. This includes working with partners to develop more resilient water catchments.

We delivered emissions reduction of 10,892 tCO_2 in 2024/25 which is equal to:

Driving over 1,500 times around the world in an average diesel car

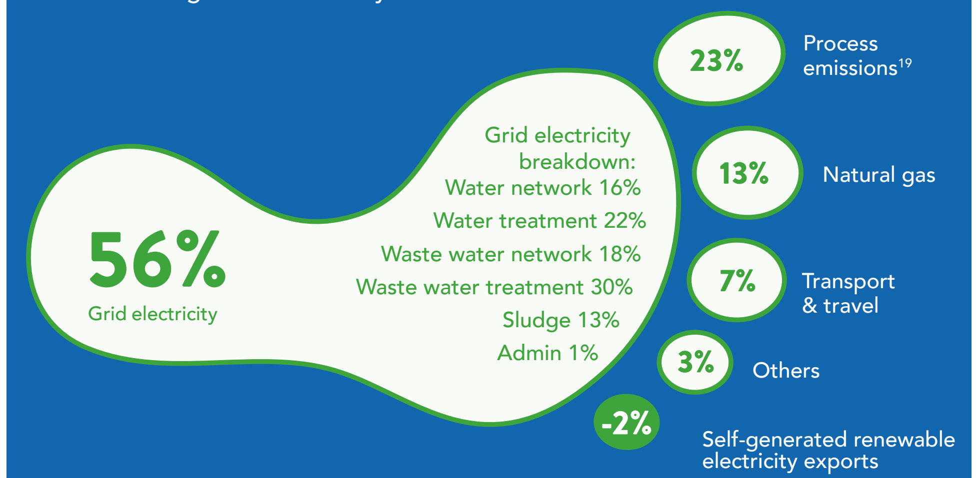
6,000 return flights from Edinburgh to New York

[18] This relates to a range of our internal initiatives such as peatland restoration or renewable energy projects which can be equated to a carbon benefit. It does not directly relate to our annual Carbon Footprint.

Reducing emissions

Our operational greenhouse gas emissions – our carbon footprint - was 220,434 tCO_2e this compares to 224,980 tCO_2e last year. This significant reduction was achieved due to energy efficiency measures and increased on-site renewable energy production reducing our use of grid electricity and transport emission reductions. Changes to the emission factors for grid electricity reduced the impact of our activities by 202 tCO_2e.

OPERATIONAL CARBON FOOTPRINT 2024/25
Greenhouse gas emissions by source



[19] The methane and nitrous oxide emissions from the biological treatment of waste water.

We continue to update our forecast as to when we expect to achieve operational net zero – something that we know we can achieve through progressing hosted wind farms on our land, investing in new technology to replace ageing sludge driers and reduce process emissions from the decarbonisation of the electricity grid. The James Hutton Institute – **The James Hutton Institute, crops, soil and environmental research** - independently assessed our carbon capture woodland and peatland activities. Due to national factor changes and an adjustment to our woodland areas our forecast of carbon capture amounts has reduced by around 10,000 tCO_2e. However, we should still achieve operational net zero in the mid-2030s. Our Streamlined Energy and Carbon Reporting (SECR) outlines our energy and carbon emissions and also other efficiency measures.

Principal Risks tables

TCFD Risk Disclosures

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50+
ENERGY EFFICIENCY PROJECTS COMPLETED IN THE YEAR

540
ELECTRIC VEHICLES

Energy efficiency and renewables

We delivered over 50 energy efficiency projects reducing a total of 1,415 tCO_2e. At our waste water treatment works we saved 4.08 GWh and our waste water sludge pumping station efficiency programme delivered 0.84 GWh savings. 1.36 GWh was saved at our water treatment works. A total of 13.2 GWh of renewable energy was generated from Scottish Waters' anaerobic digestion bioresources assets, with our PFI partners generating a further 25.58 GWh. Scottish Water's Horizons produced a further 5.10GWh.

Sixteen renewable schemes were completed generating 6.42 GWh (1,444 tCO_2e). This included an innovative 0.82 GWh hydro energy generation scheme at Whiteadder Reservoir in East Lothian, the first of its type in Europe. It uses siphon technology to generate energy while controlling the level of the reservoir without the need for major civil-engineering works. Our first solar and battery storage scheme on a water treatment works was also established at Howden, near Selkirk. It generates over a third of the site's power usage. We also established an ethical supply chain for solar panels this year and are now looking to progress new solar schemes across Scotland where possible.

CASE STUDY
New hydro scheme a European first

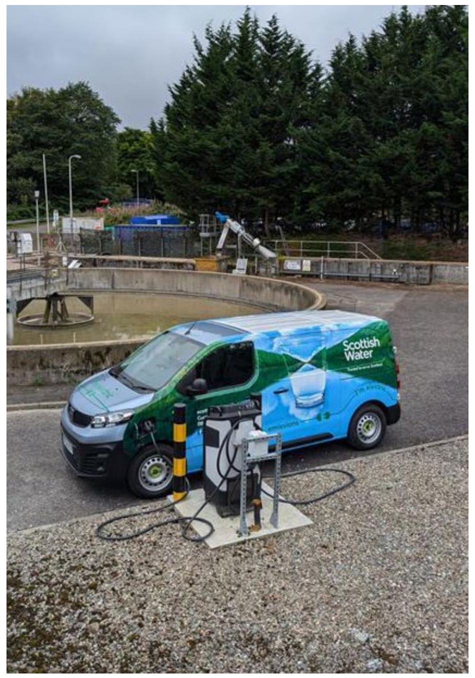
FOCUS
Investment in carbon reduction

Fleet

Our fleet recorded travel of 22 million miles last year delivering service for customers. This is a four million increase on the previous year. The reason for this increase is that we moved to a new telematics supplier and telematics were fitted to all long-term hire vehicles, meaning these numbers were added for the first time.

We continued to make good progress with the transition of our fleet to net zero, with a further 79 fleet electric vehicles delivered this year. We now have 540 electric vehicles ranging from fleet vans to lease cars. 100% of our lease cars and car fleet are now electric and 10% of our van fleet is electric. We have increased the number of electric vehicle charging points to 374 from 291 last year and these are increasingly directly utilising renewable energy generated on our sites.

In the last year we began trialling use of hydrotreated vegetable oil (HVO) in our commercial vehicle fleet by using public refuelling stations at Forfar, Ecclefechan and Dumfries and one of our partner's (Clancy) HVO tanks at its site in Livingston. These trials have been successful to date and will continue this year.



Carbon capture

We will always prioritise the elimination or minimisation of emissions but recognise that some of our emissions will be difficult to reduce with current technology. We are mitigating emissions we cannot eliminate through carbon capture on our landholdings via initiatives such as peatland restoration and woodland creation. We had a record year for peatland restoration with 555 Hectares (Ha) restored in our water catchments compared with 316 Ha last year. As well as capturing carbon, this reduces raw water quality risk. As part of the programme we have updated our carbon inventory to reflect the change in the peat condition and we are progressing a peatland monitoring campaign with the Hydro Nation Chair (Hydro Nation Chair Research & Innovation Programme).

It was also a record year for woodland creation with 208 Ha of woodland planted, from Clunas Reservoir in the Highlands, to Loch Whinyeon in Dumfries and Galloway. Also created was 24 Ha of woodland in the Loch Katrine catchment as part of our 10-year land management plan with Forestry and Land Scotland.

To reduce the application of herbicides we trialled a new fungi-based technology designed to help improve tree resilience and growth, and Forestry and Land Scotland commenced an innovative seed island planting approach to enhance woodland planting. In addition, 95 Ha of land reached sufficient maturity and density through natural regeneration to be re-classified as native woodland, predominantly at the Loch Katrine catchment.

Our current assessment of carbon capture on our estate is circa -350 tCO_2e, based on our natural capital accounts and work we have done since working to improve intelligence in this area.

FOCUS
Why is Scotland building hydrogen plants?

555Ha
RESTORED IN OUR WATER CATCHMENTS

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PROCESS EMISSIONS

Process emissions refer to nitrous oxide and methane which are released during waste water treatment. They contribute around 30% of our operational Greenhouse Gas (GHG) emissions and are challenging to reduce. We cannot manage these emissions if we cannot measure them and are continuing to focus on the installation of both gas and liquid phase nitrous oxide monitors and commencing a methane monitoring programme.

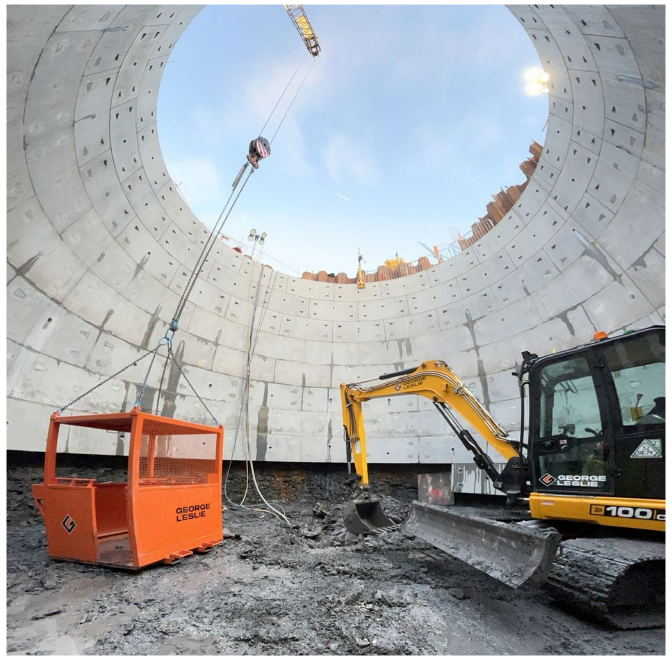
By the end of 2025 we are working to have nitrous oxide monitors installed at 12 of our 25 largest waste water treatment works which treat 80% of the population of Scotland. We have installed nitrous oxide sensors which are helping give us more accurate emissions data at our sites whilst targeting interventions to make process emissions reductions and delivering wider benefits such as lower energy usage.

Investment emissions

Investment emissions - the embodied emissions in the concrete, steel and other materials we use as well as activities to construct our assets - are an important and challenging part of our net zero commitment. This year we have been awarded the PAS 2080 (Publicly Available Specification) certification for carbon management in buildings and infrastructure. This is a globally recognised standard that demonstrates leadership in carbon management and reduction in our investment programme. We are the first public organisation in Scotland to achieve this standard and one of the first Scottish businesses to be certified. Applying this standard across the investment programme will allow us to be bolder, and to go further and faster to reduce our emissions from planning right through to delivery.

We have worked with our supply partners to deliver emission reductions from our steel procurement and are now working on a green steel procurement framework. Our Low Carbon Concrete Collective is reducing the use of a high carbon cement material, called CEM1, and delivering low carbon concrete trials. We have also partnered with United Utilities on 3D Printing of Concrete and Plastics on an OFWAT funded project. We are now implementing our low carbon kiosk framework with a number of sites already using kiosks made of wood or recycled materials such as plastic.

To encourage knowledge sharing, we have continued with our Net Zero Heroes network which is now regularly attracting around 100 people, from Scottish Water and our supply chain partners, to share best practice. We are also a partner of the Sustainable Supply Chain School (a collaboration between clients, contractors and suppliers) and have created several learning pathways to upskill users on aspects of sustainability including biodiversity, low carbon concrete and off-site construction. Our net zero reporting has been improved with the completion of a project with Circular Ecology who specialise in embodied carbon assessment and carbon database development to update our carbon factors applied in our carbon tools.



Challenges

Whilst we made good progress in the year, there were several challenges which will inform future plans:

- To address modern slavery concerns in solar panel materials we have now established an ethical supply chain for solar panels. However, it is taking time to implement, and this will mean reductions in our planned renewable programme for the rest of this regulatory period.
- We have started to use hydro-treated vegetable oil (HVO) to support carbon emission reductions in the parts of our fleet that are currently unsuitable for EVs due to load or distance factors. The HVO has been certified as not containing virgin palm oil. Following on-going scrutiny of our supply chain we have no evidence to suggest that virgin palm oil has been used.
- It was a record year for peatland restoration but some projects could not be completed due to challenges around gaining support from landowners/tenants in our water catchments.

CASE STUDY
Biodiversity improvement at Inchgarth Reservoir

CASE STUDY
Peatland restoration in Europe's largest new woodland

FOCUS
Hydrogen to help unlock innovation

CASE STUDY
Heat network partnership for the Highlands

Prospects

Over the next year and beyond we will continue to deliver our carbon reduction plans in line with our Net Zero Routemap.

We will focus on:

- Developing and delivering opportunities to reduce emissions, particularly in energy efficiency, renewable energy and in our vehicle fleet. This includes a company-wide energy efficiency campaign for our offices, laboratories and depots;
- Working with our partners on the development of hosted wind farms on our land;
- Progressing work to improve measurement and control of nitrous oxide emissions and methane at large waste water treatment works;
- Transforming our Alloa Waste Water Treatment Works to create our Circular Economy regional Hub to reduce operational energy and process emissions and recover resources;
- Working with our supply chain partners to introduce low carbon designs and materials and to expand the "art of the possible" to reduce investment emissions;
- Implementing changes to how we capture data to allow us to better measure carbon;
- Progressing woodland creation and peatland restoration on our land holdings to improve carbon capture to balance our forecast residual emissions. We will also look for additional opportunities to work with others to deliver greater benefits;
- Engaging with other UK and international water companies and other sectors to share and grow our knowledge on how to reduce emissions.

FOCUS
Working with the NHS

GREAT VALUE AND FINANCIAL SUSTAINABILITY

£1.09bn
INVESTED DELIVERING THE VITAL ASSETS

Delivering our investment programme

In 2024/25 repairs and investment increased to £1.09 billion delivering the vital assets that enable us to maintain and improve the water and waste water services people across Scotland depend on every day. This also supports growth and development to ensure communities can flourish and create work and generates income for our supply and delivery partners, most of which are based in Scotland.

Every community in Scotland depends on our pipes and treatment works to deliver services. In the last year our projects helped support the future of the country's fastest growing communities – such as Winchburgh in West Lothian. We also updated assets which date back to Victorian times to make sure they have the capacity and high-quality treatment technology to keep customers in supply of fresh, clean water – such as at Invercannie in Aberdeenshire.

Another major project saw us install a 20-metre-deep storm tank to help protect customers from sewer flooding in the Marchmont area of Edinburgh. We overcame challenges such as excavating out extremely dense sandstone for the tank construction to tunnelling a section of sewer to avoid mature tree roots.

The new works will enable storm water to be directed to the underground tank during heavy rainfall, something which occurs more frequently due to the changing climate. After storms any water collected in the tank – which can hold up to 3.5 million litres - is now pumped out to the sewer network and carried to the waste water treatment works before being returned safely to the environment.

We are increasingly looking at ways to increase biodiversity in areas where we have assets and at Marchmont we have transformed the site above ground, re-establishing it as a wildflower meadow with a special seed mix specifically for urban pollinators including hoverflies and bees. We involved the local community in the design of the project and schoolchildren helped plant the seeds.

Our capital investment programme is one of the largest infrastructure programmes in Scotland. We strive to deliver value for every pound we spend and also be transparent and accountable about our decisions. This year we have focused on improving drinking water quality, reducing sewer flooding, enhancing service resilience, protecting the environment and supporting economic development.

CASE STUDY
Timber kiosks cutting carbon

FACTS

Investment delivery risks and challenges

We continue to see an increase in the amount of money spent on repairs – which were up 8% year-on-year. This included £343 million on repairs on our assets (£25 million more than last year). The changing weather and moving and growing populations are also putting extra pressure on some water and waste water assets which will require further capital investment. We continue to prioritise the work we do to ensure best value for money whilst also doing all we can to deliver the high-quality services our customers expect.

This year, like other organisations, we have been impacted by inflation costs. Although general supply chain inflation has remained on trend to CPI (which was 2.36%), we have seen greater impacts in our construction activity linked to our capital investment programme, which is one of the biggest in Scotland. The main driver for this has been labour costs which trended between 2 and 3% points above CPI. New regulations, including National Insurance changes for employers, have also come into force that have also added costs into the market.

We are a major employer in Scotland, both directly and indirectly, and have been working with our Delivery Partners to identify the skills and resources required to deliver our capital investment programme. Challenges remain in the labour market, where in some fields there is a shortage of skilled people. We estimate we will need around 3,600 people across our supply chain, predominantly in areas of construction, design and management during the next regulatory period. In Scotland the civil engineering and infrastructure market is extremely busy with significant investment to unprecedented levels forecasted by all major infrastructure clients in Scotland over the next ten years. We recognise that this has and will continue to put pressure on the available resources to meet demand both within Scottish Water, our Delivery Partners, consultants and suppliers.

We are also looking at longer-term overall demand for labour and have identified roles where we expect there to be challenges in recruiting people, these include non-civil engineers, technicians and surveyors. We have established a steering group to work with our partners to find solutions to ensure we are able to source people with the right skills. We are now in the process of securing the correct level of capacity and capability to support forward investment requirements. We are also working with our partners and suppliers through joint working forums to identify skills requirements and recruitment strategies and are continually increasing levels of both Graduates and Apprentices.

MODERN SLAVERY

We take our responsibility on actively reducing the risk on Modern Slavery and wider ethical supply chain risk very seriously. Two years ago we took the challenging, but right decision, to suspend the new procurements of solar panels due to concerns about raw materials and use of slavery in certain part of the world until we could find ethically compliant sources. We are delighted that we now have two manufacturers on our Dynamic Purchasing System for solar panels that are certified ethically compliant.

80%
OF SUPPLY CHAIN CLASSIFIED AS SMALL OR MEDIUM-SIZED ENTERPRISES

430
SUPPLY CHAIN PARTNERS SUPPORTING 5,000 RELATED JOBS

90%
PROCUREMENT SPEND THROUGH BUSINESSES BASED IN SCOTLAND

£1.4bn
SPENT ON GOODS AND SERVICES AND ON PROCURING WORK IN THE LAST YEAR (*£1 BILLION INVESTMENT AND £400 MILLION OF OPERATIONAL SPEND)

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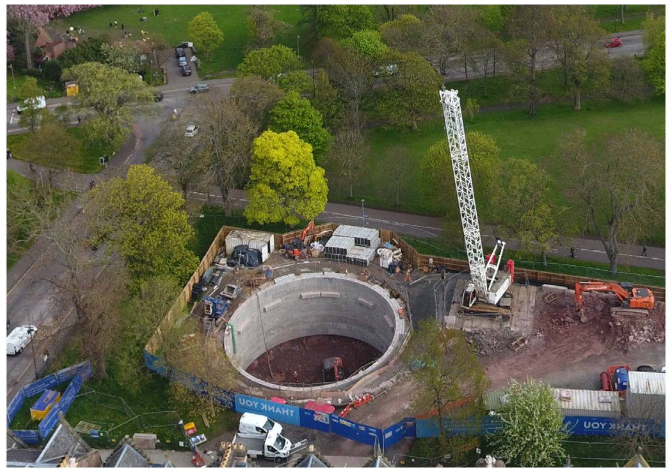
All our procurement strategies aim to create, support, develop and evolve a resilient, sustainable and growing supply chain in Scotland. Central to this effort is our new delivery model, DV4, an "advanced partnering" enterprise model designed to bring together partners in a collaborative environment with shared responsibility for delivering outcomes. This bold new model promises to deliver improved value for our customers, while fostering innovation across projects. A new framework has been introduced to make it easier for small and medium enterprises and specialist partners to support capital and operational needs.

Our Procurement and Supply Chain teams have been exploring opportunities like circular economy initiatives, carbon reduction strategies, and Integrated Supply Chain Management activities. These efforts have the potential to bring significant benefits and value-for-money improvements for our customers, while also helping us achieve our goals. They will also help foster more job growth, boost training, and create more apprenticeship opportunities.

FOCUS
Integrated Field Technology (SWIFT)

We are also increasing our net zero ambitions, including embedding carbon management practices into our procurement processes to measure carbon emissions – used to create carbon plans to support and drive carbon reduction across our work. We will continue to look at ways to reduce our carbon footprint during construction processes, including using more low carbon kiosks, low carbon steel and greater adoption of recycled materials to help us go beyond net zero.

FOCUS
Procurement and supply chain



Prospects

Many of our water and waste water assets are ageing. This along with the more extreme weather we are seeing and ongoing population growth and shifts has an impact on our assets and affects the services we deliver to customers and communities.

Our investments will continue to be prioritised to achieve the best customer and environmental benefits possible, with an ongoing focus on reducing the time involved and the cost of delivering our work. To ensure we continue to deliver value for money we regularly review a suite of measures and trends, continually seeking to improve processes as a result.

As with the last few years, we continue to see a rise in the cost of repairs, mainly due to the age of our assets, many of which are at the end of their life and need to be replaced. We spent 9% more on repairs this year than in 2023/24 when we reported a 14% increase in repairs, and given the challenges we face with ageing assets, moving and growing populations and changing weather we expect the amount of money we spent on repairs to continue to rise. We know we need sustained investment to ensure we are both able to maintain ageing assets and then can carry out the upgrades needed to maintain a high quality of service to our customers.

To help with this we have introduced a new way to track and report on how well our capital investment work is performing, giving us more insights than ever. The new information will make it easier for us to see if a project was delivered early, on time or late and if it was below, on or over budget. The first report is due in the summer and will help us monitor progress and see what has worked and where areas may need improved. The new data will be shared with a range of stakeholders, including regulators, to help highlight how we deliver value for money for every pound of customers' money.

We will continue to look at new ways to monitor our business performance to help us manage our investment.

HELPING OUR PEOPLE FLOURISH

We are a major employer with our people working 24/7 to deliver vital services our customers depend on come rain or shine. We also work alongside a wide network of delivery partners and suppliers, most based in Scotland. At the end of March 2025, we directly employed 4,849 people, 3.4% more than the same time last year. This reflects an increase in people delivering our record investment programme and also customer service.

Our focus is on helping our people flourish by striving to create an inclusive and engaging environment where everyone can perform at their best. This enables us to recruit, develop and retain key talent and skills. We champion great leadership, and support our leaders to be inspiring, empowering and caring.

This year we have run various programmes and events to help our people understand and connect with our purpose and ambitions. It is important our people are proud of the vital part they play in creating a flourishing Scotland and making sure customers remain at the heart of all we do.

Our new approach to listening to our people to gain more insights and feedback has led to increased employee survey participation rates and better representation from all parts of our business. This gives us a clearer understanding of how it feels to work in the various parts of Scottish Water, helping us to continue doing what our colleagues value, as well as making changes where needed. We remain an organisation with a high staff retention level, meaning that we retain good knowledge and experience.

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Rewarding our people

We have reformed pay and grading for all employees through two reward projects, responding to concerns from colleagues that the previous systems were not working well. Scottish Water, like many public sector employers, has nevertheless faced a challenging industrial relations environment, including a dispute over pay. Our approach is to ensure transparency and fairness, balancing the interests of customers and employees, so that we continue to deliver great value and financial efficiency. Trade unions are a key part of our consultative framework and play an important role in involving and engaging our people.

We have completed a three-year transformation of our internal performance management system to ensure our people are clear, capable and motivated. This also provides a stronger link between pay and performance, streamlining the process and offering greater opportunity to reward success.

As part of planning for SR27 (2027-33), we are considering the skills we require and how we continue to recruit, develop, reward and engage our people to ensure we are well placed to perform well. We have a great opportunity to simplify and streamline policies across teams, among those who work for us and alongside, including in our supply chain. A number of new employees will join us through TUPE[20] transfers, due to long-running Private Finance Initiative (PFI) projects ending over the next few years.

Attracting talent for the future

We are committed to being a diverse, equal and inclusive organisation and are focused on attracting people from a wide range of backgrounds. Our youth talent programmes for graduates and apprentices form a key part of our strategy to build skills and resources for the future. During 2024/25 we had 174 apprentices and 98 graduates developing within our core business in a wide range of roles across Scotland. Of the graduates we recruited last year 52% were female and 28% of apprentices were female, a growing number because of continued focus on this.

CASE STUDY
Modern apprentice claims top net zero gong

Talent attraction is key. This year we launched a new Water Sector Careers site with our partner organisations to support talent attraction into the Water Sector in Scotland. We also continue to work with a range of partners, including MCR Pathways and Career Ready, to support young people from areas of social deprivation. Our efforts have been recognised with the 'Investors in Young People – Platinum level'.

We were proud to have won the Early Careers Award at the 2024 **TIARA Talent Acquisition Awards** and the QA Public Sector Apprentice Employer of the Year Award 2025. We also won "Best Assessment and Selection Strategy" at **The Firm Awards 2024** powered by The Talent Labs - Winners 2024, for the work we have been doing in the Early Careers recruitment space.

Wellbeing and inclusion

We strive to recognise, support and meet our diverse customers and communities' requirements in an inclusive and accessible way. We want our employees to reflect the diversity of Scotland, particularly in relation to women, minority ethnic and disabled people. Our latest **Public Sector Equality Duty Report** highlights the progress we have made against the equality outcomes we set for 2021-2025.

The report outlines our progress in Diversity, Equality, and Inclusion, including efforts to attract diverse talent and address under-representation. It also highlights how our policies, initiatives, and improvement activities support embedding these principles across the organisation, fulfilling our public sector duties.

FOCUS
Belong network of employee-led groups

Over the last year we took the top spot in the 'Best Workplace Wellbeing Strategy in the Public Sector' category of the Great British Workplace Wellbeing Awards, and we retained our Employers Network for Equality and Inclusion silver status, recognising our efforts in diversity, equality and inclusion, all of which serves to further enhance our employer brand. Additionally, positive actions in recruitment and support for neurodivergent individuals earned us recognition as a Neuro Champion at the Celebrating Neurodiversity Awards.

[20] What a TUPE transfer is - TUPE

Challenges

The external environment remains challenging in relation to the availability of skilled resources with significant investment taking place in Scotland, and more widely across the UK, in infrastructure, renewables and the water sector specifically. We anticipate skills shortages in some areas which may make some vacancies more difficult to fill. As our capital delivery programme continues to expand, we have started to look at new ways to recruit the people and skills we will need, working with our partners to support a flourishing Scotland.

We have been collaborating with our partners to respond to this challenge and in March 2025 we launched a new careers site for water sector jobs in Scotland. We plan is to grow this site to attract both young people and experienced hires for Scottish Water and our Delivery Partners. We want to create a go-to location for jobs across our partnerships to help attract talented people to our sector. We know various challenges exist with the supply and demand of the type of specialist resources needed to deliver vital national infrastructure projects and without a significant increase in the supply side we may continue to experience resourcing pressures.

WaterAid fundraising

We are working in partnership with international charity WaterAid to provide everyone with clean water, decent toilets and good hygiene. For health, for life, forever. Our people, along with our alliance partners, raised £389,104 in the last year through different activities such as fundraising events, sponsored challenges and a monthly payroll lottery. **Donate to WaterAid UK today - the UK's dedicated water charity**

Prospects

We will undertake an evaluation of our industrial relations environment to ensure we continue to prioritise effective employee relations. This will involve designing and implementing new ways of working with our three recognised unions. The outcome will be to deliver more effective ways of working together that enable the entire workforce to be more involved, generating better decision making, engagement, ownership of change and 'ultimately' enable us to deliver our key strategic priorities.

To ensure we continue our commitment to providing an inclusive, engaging environment we will step up our focus on wellbeing and inclusion by enhancing insights and benchmarking across the sector and beyond. We will seek to increase opportunities for individuals whose career and development opportunities may be limited due to their background or the place where they live and provide enabling environments in the early stages of their careers with us.

We will be integrating wellbeing and 'Beyond Zero Harm' practices as an industry-wide endeavour and will focus on inclusive communications within our business and towards customers and stakeholders. We will also continue to focus on promoting positive mental health and providing support for employees through training, Wellbeing Clinics, our Employee Assistance Programme and our network of Mental Health First Aiders. Many of our Safety, Health and Wellbeing Goals focus on improving mental health – by raising awareness of health and wellness, by actively promoting positive mental health, and by encouraging positive lifestyle choices.

Statutory Trade Union facility time

We recognise three unions under a joint recognition agreement. Supporting our commitment to joint working with the unions, and in line with best practice, we ensure representatives are given reasonable time off to fulfil their union duties.

Transforming how we work and invest to best serve our customers

We've continued to make strong progress in transforming how we invest and serve our communities. Our focus has been on mobilising key programmes that are transforming how we deliver services, how we invest our customers' money, and ensuring we are as effective and efficient as possible in doing so. These initiatives are not only reshaping our approach to investment and service delivery but also ensuring that our most valuable asset - our people - remain at the heart of our ongoing transformation.

Like other water companies we face challenges in balancing the need to provide reliable and high-quality services with the constraints of limited funding and changing environmental conditions. We are determined to make more informed and strategic decisions about how we use resources and invest in the future. This includes exploring new technologies, innovative solutions, and more sustainable practices to ensure the long-term health of Scotland's water infrastructure.

These include:

River Basin Management Plan: We are collaborating with a number of supply and delivery partners to implement significant improvements and upgrades at 33 waste water treatment works to enhance the water quality at seven rivers.

Reservoir Safety: We are helping our reservoir teams improve the operational efficiency and sustainability of our reservoir maintenance obligations. The Reservoir Safety Improvements project will focus on key areas to develop proactive capabilities which support risk reduction, increased compliance and improved decision making.

Our future priorities will focus on six key areas:

- **Digitisation**: Harnessing digital technologies to boost efficiency, lower costs, and enhance service delivery;
- **Improved Partnership Working:** Strengthening collaborations with key partners such as digital and construction to foster innovation, streamline operations, and share resources effectively;
- **Simplification and Standardisation**: Applying lean methodologies to simplify processes and standardise practices, reducing waste and boosting productivity;
- **Systems-Based Approach**: Adopting a holistic operational view to optimise resource use and eliminate redundancy;
- **Asset Risk and Optimisation**: Proactively managing asset risks to maximise value and minimise downtime throughout asset lifecycles;
- **Partnership Ecosystems – Team Scotland:** Collaborating across sectors to create a resilient, unified approach to water management in Scotland.

Our transformation will focus on ensuring we deliver on our three strategic ambitions. We will build on the strong foundations and lessons from SR21 (2021-27) to deliver a focused portfolio that supports our technology roadmap whilst continuing to deliver savings as we head into the next regulatory period. We are committed to delivering value for customers, advancing our net zero ambitions, and maintaining strong engagement with stakeholders.
And our commitment to innovation and collaboration will ensure a lasting, positive impact on both our operations and the communities we serve.

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DIGITAL INNOVATION - HELPING OUR PEOPLE HELP OUR CUSTOMERS

Over the past year, we've made big strides in strengthening our digital infrastructure to enhance customer service and drive innovation. Modern digital communication tools have played a key role in making our assets – and the systems our teams use – more resilient and effective. These updated systems give us earlier and clearer insights into potential issues, such as environmental pollution or water quality concerns. This means we can respond more quickly, reducing any negative impacts before they escalate.

In a world where cyber threats are becoming more sophisticated, we've significantly upgraded the security and resilience of our digital infrastructure. Our comprehensive cyber security programme includes system upgrades, new tools to protect against artificial intelligence (AI) threats, and enhanced safeguards for our operational assets.

We have been developing our Customer and Community Insights App, which hosts a suite of dashboards that help our people to bring customer voices into their decision making. This includes the Customer Powered Insights Dashboard (CuPID), which provides a near real-time view of what is happening across Scotland in relation to the water service and helps our people understand how issues or incidents are impacting customers, so they can plan how best to respond. We have now introduced a new version which extends the functionality to cover our waste water service.

We also upgraded our Emergency Sensitive Customer Application (ESCA), which now integrates data from publicly available sources (including NHS Scotland, Public Health Scotland and the Care Inspectorate), wholesale market data and Scottish Water Priority Services Register data. This tool helps us to identify and prioritise support for our most vulnerable customers during incidents, ensuring help gets to those who need it most, faster and more effectively.

FOCUS
Cyber security

The expansion of our digital tools has significantly improved how we plan for the future. These tools support both medium and long-term investment decisions by giving our teams access to deeper, data-driven evidence. This includes aligning asset deterioration models with management strategies and building a climate change model to forecast how changing weather patterns might impact our infrastructure – like increases in burst water mains. We're also rolling out new systems that will take our investment planning and asset management to the next level – ensuring we get the most value from every pound we spend.

Digital innovation is also transforming how we work with delivery partners. We've standardised data collection into one central hub, making it easier for our people and partners to access and share vital information. The roll out of our Quality Remote Assurance Platform has made this process even smoother as data can now be captured and shared through a single app. This not only speeds things up but also supports smarter decision making and helps pinpoint where improvements are needed.

Within our capital investment programme, the streamlining of data processes has led to a wealth of new insights. We can now spot recurring issues, identify trends, and better estimate the cost and impact of potential improvements.

We also piloted and deployed over 500 new tablets for our field teams. These cutting-edge devices offer faster connectivity – even in remote areas – and in some cases, allow tasks to be completed remotely. This reduces travel, saves time, and helps us meet our sustainability goals.

Our cloud data platform continues to evolve. With 80% of our systems now cloud-based, we're operating more efficiently while lowering our carbon footprint. The next step is to migrate the remaining legacy systems to the cloud, further reducing our reliance on on-site servers.

Innovation is central to our digital strategy. As we prepare for the next regulatory period, we're embracing a 'digital-first' approach – exploring new technologies and advanced data insights to boost efficiency and deliver even better service for our customers.

FOCUS
Developing our Long-Term Strategy

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FINANCIAL SUSTAINABILITY

An overview of year-on-year Group performance, on a statutory accounting basis, is provided in the following pages. Year-on-year performance of the three main business segments Scottish Water Regulated, Business Stream Group and Horizons Group (non-regulated services) is detailed on page 54. More detailed information on the performance of regulated services, on a regulatory accounting basis, and future prospects for the business are provided on pages 55 to 59.

Financial performance – group overview

The tables below summarise the key components of surplus before tax, net debt and taxation by trading segment.

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Inter-Company eliminations £m		Consolidated Total £m	
	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24
Revenue	1,579	1,449	708	676	19	18	(219)	(208)	**2,087**	**1,935**
Operating Costs	(1,364)	(1,270)	(693)	(664)	(22)	(16)	225	208	**(1,854)**	**(1,742)**
Operating Surplus	215	179	15	12	(3)	2	6	-	**233**	**193**
Finance Costs	(153)	(143)	3	4	2	1	-	-	**(148)**	**(138)**
Surplus before Tax	62	36	18	16	(1)	3	6	-	**85**	**55**

The group surplus before tax for the year to 31 March 2025 increased by £30 million to £85 million (2024: £55 million). This was due to a £26 million increase in Scottish Water regulated surplus driven by charge increases of 8.8% in the year. This increase was supported by a £2 million increase in Business Stream, a £6 million increase in group eliminations and offset by a £4 million decrease in non-regulated services.

Consolidated capital investment increased £79 million to £782 million (2024: £703 million) reflecting increased investment in Scottish Water's regulated activities.

In the year to 31 March 2025, Group cash balances decreased by £92 million to £270 million. With net new borrowing in the year of £170 million increasing debt to £4,874 million, consolidated net debt increased by £262 million to £4,604 million. The movements are summarised in the table below by trading segment:

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Consolidated Total £m	
	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24
Cash	136	280	78	38	56	44	**270**	**362**
Debt	(4,874)	(4,704)	-	-	-	-	**(4,874)**	**(4,704)**
Net Debt	(4,738)	(4,424)	78	38	56	44	**(4,604)**	**(4,342)**

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Group taxation

Scottish Water was awarded the Fair Tax Mark for the fifth time in December 2024, demonstrating the continued commitment from Scottish Water to play fair by tax.

The consolidated tax charge on the income statement in the year was £33 million (2024: £15 million). The effective tax rate for the year was 39% (2024: 28%) due to a prior year adjustment in respect of the tax written down value of the assets when compared to the accounting written down value (see note 8 on page 129).

The table below sets out the tax charge by trading segment compared to the previous year:

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Inter-Company eliminations £m		Consolidated Total £m	
	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24
Current year tax charge	(12)	-	6	6	-	-	-	-	**(6)**	**6**
Deferred tax charge	38	10	-	(1)	-	-	1	-	**39**	**9**
Total	**26**	**10**	**6**	**5**	**-**	**-**	**1**	**-**	**33**	**15**

Group pension arrangements

Scottish Water is a participating employer in the Scottish Local Government Pension Schemes across three funds – Strathclyde, North-East Scotland and Lothian. These funds are administered by Glasgow, Aberdeen and Edinburgh City Councils respectively. Business Stream is also a participating employer in the Strathclyde Pension Fund.

Under IAS 19 a snapshot is taken of pension fund assets and liabilities at a specific point in time. Driven by the value of the assets increasing by 4% in the year to 31 March 2025, the overall impact was an actuarial gain of £250 million resulting in a pension net asset of £1,085 million as at 31 March 2025. However, under the relevant accounting standards the pension asset is restricted to reflect the amount the employer is entitled to as an unconditional refund of the surplus or reduction in future contributions to the pension fund.

This has been calculated as nil for Scottish Water and nil for Business Stream (£56 million and nil respectively at 31 March 2024). As such none of this pension asset is recognised.

In addition, Scottish Water has an unfunded liability of £68 million as at 31 March 2025 (£76 million at 31 March 2024). This relates to discretionary benefits provided to some employees that took voluntary redundancy between 1996 and 2007.

The actuarial movements, net of deferred tax, are presented in the consolidated statement of comprehensive income with further detail in note 22 to the financial statements (on pages 146 to 151).

Financial summary of year-on-year performance

Scottish Water regulated business revenue

Revenue for the year to 31 March 2025 increased by £130 million or 9% to £1,579 million[21,22] (2024: £1,449 million). This is analysed by category in the table to the right. The increase reflects an average charge increase of 8.8% for household and wholesale customers applied on 1 April 2024 and new connections to services. Cumulatively, for the first four years (2022 to 2025) of this six-year regulatory period, charges were 0.4% below CPI inflation.

	FY25 £m	FY24 £m	Inc/(dec) £m
Household	1,154	1,050	104
Wholesale	410	382	28
Other	15	17	(2)
Total revenue	**1,579**	**1,449**	**130**

[21] This excludes Infrastructure charge income of £13m (2024: £13m) and disposal proceeds from sale of assets of £2m (2024: £3m) which is included in the regulatory accounting basis set out on page 55 to 59.
[22] In the year to 31 March 2025 revenues previously recognised as non-regulated within the Scottish Water entity were recognised as revenue in the regulated business to comply with the revised regulatory accounting rules updated in the year. The value of this adjustment is £3m and is included in other revenue. The previous year has also been updated to reflect this change to ensure comparison on a consistent basis (£3m adjustment).

Operating costs, PFI and depreciation

Total operating costs in the year increased £94 million or 7% to £1,364 million (2024: £1,270 million). The table below reconciles regulatory operating and PFI costs, shown in the regulatory section on page 55 with total operating cost per the statutory accounts.

	FY25 £m	FY24 £m	Inc/(dec) £m
Regulatory operating costs	(511)	(484)[23]	(27)
PFI costs	(169)	(160)	(9)
Repair costs	(343)	(318)	(25)
Depreciation and amortisation	(366)	(339)	(27)
Gain on sale of assets	2	(1)	3
IAS19 & employee cost adjustment[24]	2	11	(9)
PFI cost adjustment - finance costs to lease liability[25]	21	21	-
Total operating cost per statutory accounts	**(1,364)**	**(1,270)**	**(94)**
Cost of sales	(1,250)	(1,154)	(96)
Administrative expenses	(114)	(116)	2
Total	**(1,364)**	**(1,270)**	**(94)**

Regulated operating costs increased £27 million or 6% to £511 million (2024: £484 million) reflecting a one-off rates refund of £25 million in the prior year following the successful appeal of the 2017 Water Undertaking Valuation. Other cost movements largely offset as a result of a benign weather year driving lower energy and lower weather related costs and increases in employment costs as a consequence of modernising the pay and grading system for our employees.

PFI costs increased in the year by £9 million or 6%, to £169 million (2024: £160 million) reflecting inflationary impacts on PFI contracts which broadly increase by RPI inflation annually and additional costs indexed to gas prices.

Repair costs in the year increased by £25 million or 8% to £343 million (2024: £318 million) driven by the ageing asset base, and inflationary pressures on costs.

Depreciation and amortisation charges increased in the year by £27 million or 8% to £366 million (2024: £339 million), due to the profile of capital investment and completed projects coming into beneficial use.

[23] Following an update to the regulatory accounting rules in 2024/25, cloud computing arrangement and non-regulated costs are recognised with regulatory operating costs. To ensure consistent comparison, 2023/24 £22m and £3m respectively have been included in this category.
[24] The £2m decrease to cost of sales and administrative costs is due to the IAS19 'current service cost total' being lower than actual pension contributions charged during the year. The IAS19 current service costs are based on the forecast charge, determined by our actuaries at the start of the year, which reflected the discount rate assumptions as at 31 March 2024 (4.80%; March 2023: 4.75%).
[25] PFI costs, for statutory reporting purposes, are treated as finance leases under IFRIC 12. The adjustments reclassify part of the costs incurred in the year to finance charges and part to the repayment of the finance lease liability. In addition, there is a depreciation charge in respect of the 'leased' PFI assets.

Finance costs

Net finance costs in the year increased £10 million to £153 million (2024: £143 million). The increase was mainly driven by higher interest charges reflecting a combination of higher interest rates and higher debt levels. The table below details the elements of net finance costs:

	FY25 £m	FY24 £m	Inc/(dec) £m
Interest charges	(153)	(146)	(7)
Interest receipts	11	13	(2)
PFI finance lease costs (IFRIC 12)	(9)	(11)	2
Finance lease liabilities (IFRS 16)	(1)	-	(1)
Pension scheme finance costs (IAS 19)[26]	(1)	1	(2)
Net finance costs	**(153)**	**(143)**	**(10)**

As at 31 March 2025, the weighted average interest cost of the outstanding long-term debt within Scottish Water's regulated business remained at 3.2% (March 2024: 3.2%). In the year Scottish Water repaid £169 million loans that had a weighted average interest rate of 5.3% with new loans drawn down from the Scottish Government of £339 million with a weighted average interest rate of 4.5%.

Surplus before tax

The surplus before tax increased £26 million or 72% to £62 million (2024: £36 million) for the year to 31 March 2025.

[26] The adjustment to finance costs relates to the finance charge calculated on the pension scheme net liabilities using the opening discount rate of 4.80%.
[27] Following an update to the regulatory accounting rules in 2024/25, cloud computing arrangement costs are recognised with regulatory operating costs and are therefore no longer counted as planned investment. To ensure consistent comparison, 2023/24 has been reduced by £22m.

Capital investment

On a statutory accounting basis, Capital investment for the year was £778 million, £82 million higher than in 2023/24 reflecting the planned increase to the investment programme. The table below reconciles planned investment on a regulatory accounting basis as highlighted on page 57 with Capital investment as stated in the statutory accounts (see note 9 on page 131).

	FY25 £m	FY24 £m	Change £m
Planned investment on a regulatory accounting basis[27]	**815**	**767**	**48**
Less planned repairs charged to the Income Statement	(107)	(117)	10
Add refurbishment costs included in responsive refurbishment costs	42	35	7
Add developer contributions	47	33	14
Less investment funded mainly from infrastructure charges and the settlement of contractual claims etc	(22)	(22)	-
Lease additions (IFRS 16)	3	-	3
Company capital additions as at 31 March 2025 per note 9	**778**	**696**	**82**

Cash

The cash balance in the year within Scottish Water decreased by £144 million to £136 million (2024: £280 million) to support the investment programme expenditure.
Any large infrastructure organisation that provides an essential service requires access to sufficient cash to maintain its activities and to respond to unforeseen events. Cash balances are largely a function of when borrowing is drawn down from the Scottish Government relative to when it is invested and, unlike similar infrastructure businesses, Scottish Water does not have access to any other form of credit facilities. Scottish Water's risk appetite determines that the regulated business should always have access to approximately four weeks expenditure. The balance of Scottish Water's cash has been committed for future investment delivery as set out in note 23 on page 152.

Business Stream

Strategic and financial framework

Business Stream is the largest Licensed Provider operating in the Scottish retail market and one of the largest retailers licensed to operate in the English market. The retailer's commercial strategy remains to retain and grow market share by identifying opportunities that will provide scale and add value through a combination of acquisition and organic growth.

Within the Scottish Water group, the licensed and commercial activities are generally self-financing with any surplus generated being retained and invested in future developments of the business. Where additional financing is required to fund operations and planned expansion, Business Stream is limited to borrowing from Scottish Water Business Stream Holdings Ltd, subject to the appropriate board approvals.

Performance review

Business Stream has retained its market share at around 20%, cementing its position as one of the largest retailers in the UK water market. Their model is predicated on providing market leading services to business customers across the UK, supported by continued investment in people, processes and technology to ensure they can meet customers' needs and deliver an excellent customer experience.

The most recent regulatory price review has significantly increased wholesale prices in England for the 2025/26 financial year, which will have a direct impact on customer charges. Business Stream is working with customers to minimise the impact, by supporting them to reduce bills through consumption reduction and water efficiency initiatives and providing payment support for those who need it.

Financial performance

Revenue from this business segment for the year totalled £708 million (2024: £676 million) (per note 3 to the financial statements) representing 31% (2024: 32%) of the group revenue, before intercompany eliminations. The surplus before tax within this segment was £18 million (2024: £16 million) reflecting revenue growth as a result of price increases.

Despite the continuing challenges within the economy, Business Stream's balance sheet remains strong, with net assets of £135 million as at 31 March 2025 with £1 million investment in the year. The balance of debt reduced to £20 million in year, following the repayment of £5 million (31 March 2024: £25 million).

Cash balances as at 31 March 2025 for the Business Stream 'Group' were £78 million (31 March 2024: £38 million) due to a reduction in debtors throughout the year as well as an increased number of customers paying annual 2025/26 invoices ahead of the year end.

Scottish Water Horizons (Non-regulated business)

Overview

Non-regulated business activities are undertaken by Scottish Water Horizons Holdings and operate through Scottish Water Horizons with a primary focus on renewables.

Revenue from this business segment to March 2025 totalled £19 million (2024: £18 million[28]) (per note 3 to the financial statements) representing 1% (2024: 1%) of the group revenue, before intercompany eliminations. The increase in revenue reflects growth in Developer projects.

The deficit before tax within this segment was £1 million (2024: £3 million surplus). The deficit in the year reflects the disposal of heat from sewage assets at Stirling and Dalmarnock in the year and the discontinued operations at the Deerdykes facility.

Investment during the year within Scottish Water Horizons totalled £3 million with a focus on low carbon investments predominately related to PV schemes.

Cash balances within the Horizons group of companies increased to £56 million (2024: £44 million) reflecting the proceeds from disposal of heat from sewage assets at Stirling and Dalmarnock. Horizons continues to evaluate new commercial opportunities that will generate additional cash and strengthen financial stability.

[28] 'In the year to 31 March 2025 revenues previously recognised as non-regulated within the Scottish Water entity were recognised as revenue in the regulated business to comply with the revised regulatory accounting rules updated in the year. The value of this adjustment is £3m and is included in other revenue. The previous year has also been updated to reflect this change to ensure comparison on a consistent basis (£3m adjustment).'

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Financial performance Scottish Water – Regulated services

Performance compared to plan and the Final Determination

The financial performance of our regulated activities is measured on a regulatory accounting basis, which includes items subject to a long-term normative charge (LTNC)[29]. The following tables and commentary have therefore been presented on that basis and compared to the Final Determination (FD) prepared by the Water Industry Commission for Scotland (WICS).

The Regulated Income & Expenditure Statement and Capital Investment for the year to 31 March 2025 compared to the Final Determination[30] is presented below.

Scottish Water's Regulated Income & Expenditure Statement	Actual 2024/25 £m	WICS financial model underpinning FD 2024/25 £m	Variance 2024/25 £m	Cumulative variance 21-25 £m
Total revenue	**1,595**	**1,731**	**(136)**	**(321)**
Regulatory operating costs	(511)	(677)	(3)	29
PFI costs	(169)			
Interest charges	(142)	(188)	46	153
Costs before items subject to LTNC[31]	**(822)**	**(865)**	**43**	**182**
Total available to support investment before LTNC items	**773**	**866**	**(93)**	**(139)**
Responsive repair & refurbishment costs	(230)[32]	(279)	49	140
Developer contributions	(33)[32]	(35)	2	2
Tax paid	-[32]	(6)	6	22
Total LTNC Items	**(263)**	**(320)**	**57**	**164**
Surplus after charging LTNC items	**510**	**546**	**(36)**	**25**

[29] LTNC Items - Responsive repair and refurbishment costs, developer contributions and tax.
[30] Updated for outturn inflation and realignment of operating expenditure. After the Final Determination was published, Scottish Water realigned operating expenditure to reflect improvements to its systems of cost capture. This change has the effect of reducing the allowed for operating expenditure by c. £50m per year and increasing the allowed costs for responsive repair and refurbishment expenditure by c. £50m per year.
[31] Costs before items subject to LTNC in the FD have been amended to include actual outturn cloud computing arrangement costs and Scottish Water non-regulated costs in the year of £29m and £3m respectively. These items are also included within the actual column to ensure like for like comparison.
[32] The LTNC for responsive repair & refurbishment costs, developer contributions and tax have been revised based on updated trends. This has resulted in an increase of £5 million to £230 million per year, an increase of £3 million to £33 million per year and a reduction of £1 million to nil respectively over the period from 2021-27.

Revenue

Revenue for the year at £1,595 million was £136 million lower than anticipated in the FD. Cumulatively, for the first four years of the regulatory period, charges were 0.4% below CPI inflation and 8.6% below the charge path anticipated in the FD. Consequently, revenue, on a cumulative basis since the start of the regulatory period, was £321 million lower than that anticipated in the FD. Charges in the FD were based on CPI inflation plus 2% per annum but charge increases for 2024/25 were higher at 8.8%, 4.2% higher than the October 2023 CPI inflation of 4.6% to start bringing charges in line with the cumulative CPI + 12.6% increase published in the FD.

Operating costs, PFI and interest

Costs before items subject to LTNC for the year at £822 million, were £43 million lower than anticipated in the FD, driven by lower interest charges of £46 million and marginally offset by higher operating and PFI costs of £3 million.

As set out in the 2024 Interim Report and Accounts: Performance and Prospects, planned costs before items subject to LTNC were expected to be £804 million which after adjusting for the change in regulatory accounting rules (see footnote 25) would be £836 million. Actual performance in the year was £14 million lower at £822 million. The main contributors, compared to plan, were reduced weather impacts over the winter period reflecting a benign weather year, lower electricity costs and gas prices[33] compared with the market expectations when we set the plan, and lower interest charges driven by improved interest rates paid on funds on deposit.

Costs before items subject to LTNC, on a cumulative basis since the start of the regulatory period, were £182 million lower than that anticipated in the FD.

The table below reconciles the total available to support investment of £773 million, shown in the table above, to the Scottish Water surplus before tax in the financial statements of £62 million, referenced in the financial summary of year-on-year performance above and on the financial statements on page 114.

	FY25 £m
Regulated funding for planned investment before LTNC adjustments (per table above)	**773**
Deduct actual expenditure on LTNC items	(324)
Less depreciation & amortisation charges	(366)
Add back developer contributions less infrastructure charge income awaiting investment	34
Disposal proceeds less gain or loss on disposal of assets	(1)
Planned maintenance costs less refurbishment costs capitalised	(66)
Retirement benefit obligation:	
Operating costs	2
Finance costs	(1)
Finance lease costs (IFRS 16) adjustment	(1)
PFI finance lease costs (IFRIC 12) adjustment	12
Scottish Water Surplus Before Tax per statutory accounts	**62**

[33] Which reduce contractual indexation within the Levenmouth PFI contract.

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Long-Term Normative Charge items (LTNC)

Responsive repair and refurbishment expenditure is difficult to predict over a short-term time horizon as there can be significant variability in the annual level of expenditure associated with, for example, significant water main bursts or collapsed sewers. A LTNC has been applied to remove annual variability with the overall control that the LTNC allocation will balance with actual expenditure incurred over the 2021-27 period.

Actual regulatory expenditure in the year for responsive repairs and refurbishment was £277 million compared to the LTNC charge for the year of £230 million, which itself was £49 million lower than the FD assumption of £279 million. Cumulatively, the LTNC for responsive repairs and refurbishment was £140 million lower than the level assumed in the FD. In the year we have amended our LTNC from £225 million to £230 million to align with our forecast for the 2021-27 period. This increase reflects the increase in demand as a consequence of the ageing asset base.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach in these with normative charges of £33 million per annum for developer contributions and nil per annum for tax paid. The normative charge for developer contributions has increased to reflect increased demand, particularly with the current expansion in Perth and taxation has reduced by £1 million per annum reflecting higher levels of repair being expensed.

In the year actual expenditure for developer contributions was £46 million with tax expenditure reflecting a refund of £16 million due to enhanced capital allowances of 100% first year capital allowance applying to expenditure on new plant and machinery and the new 50% first year special rate allowance on long-life assets. Consequently, total actual expenditure on LTNC items in the year was £307 million, £44 million higher than the LTNC.

Over the 2025-27 period rebasing of LTNCs will be required to reflect actual expenditure trends and up-to-date forecasts. These updates will continue to be highlighted within interim and annual reports.

Surplus to support planned investment

The total surplus available to support planned investment, after charging for LTNC items, for the year was £510 million. This was £36 million lower than that anticipated in the FD for the year. Cumulatively, since the start of the regulatory period, the surplus to support planned investment was £25 million higher.

Capital investment

Gross planned investment, on a regulatory accounting basis, in the year was £815 million, which was £68 million or c. 9% higher than the FD. When combined with responsive repair and refurbishment costs, total regulated investment was £1,092 million in the year. The table below compares performance to the investment expectations in the FD.

Investment on a regulatory accounting basis	Actual 2024/25 £m	Final Determination 2024/25 £m	Inc/(dec) 2024/25 £m	Cumulative inc/(dec) 21-25 £m
Planned investment	815	747	68	154
Responsive repair & refurbishment costs	277	279	(2)	(203)
Total	**1,092**	**1,026**	**66**	**(49)**

Prospects for the regulated business 2025/26

We remain committed to deliver our Strategic Plan, increase investment to replace our ageing assets, achieve our net zero ambitions and take all possible steps to drive for further efficiency to provide great value for customers by targeting at least a 1% year-on-year real reduction (CPI-1%) in costs in line with the challenging target set in the FD.

The planned regulated income & expenditure for the year to March 2026 compared to the Final Determination is presented below.

Scottish Water Regulated Income & Expenditure Statement	Plan 2025/26 £m	Final Determination 2025/26[34] £m	Inc/(dec) 2025/26 £m	Cumulative Variance £m
Total revenue	**1,753**	**1,820**	**(67)**	**(388)**
Regulatory operating costs	(552)	(693)	(32)	(3)
PFI operating costs	(173)			
Interest charges	(159)	(194)	35	188
Costs before items subject to LTNC	**(884)**	**(887)**	**3**	**185**
Total available to support investment before LTNC items	**869**	**933**	**(64)**	**(203)**
Responsive repair & refurbishment costs	(230)	(286)	56	196
Developer contributions	(33)	(36)	3	5
Tax paid	-	(6)	6	28
Total LTNC Items	**(263)**	**(328)**	**65**	**229**
Surplus after charging LTNC items	**606**	**605**	**1**	**26**

[34] Updated to reflect forecast CPI inflation of 3.4% in 2025/26 per the February MPC Report published by the Bank of England.

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Customer charges for 2025/26 have increased by 9.9% reflecting our current and future investment needs to protect services and to recover revenue lost over the earlier half of the regulatory period when charges were set at lower levels in recognition of the Covid-19 pandemic and the cost-of-living crisis. Despite this increase, charges still remain c. 3.2% below the charge path outlined in the FD.

Currently, Scottish Water's investment plan of £4.45 billion[35] assumes that charges over the 2021-27 regulatory period will align with the FD level of CPI + 12.6%. To remain aligned with this level, future charges would increase above the CPI inflation for 2026/27.

Costs for 2025/26, before items subject to LTNC, are anticipated to outperform by £3 million. The decrease in outperformance reflects assumed a reversion to normal operating conditions (rather than the benign weather year in 2024/25) continued inflationary pressures on our operating and PFI costs relative to CPI offset by lower net interest charges and continued improvements supported by our transformation programme.

[35] In 2017/18 prices.

Over the 2021-27 regulatory period, our expectation is that our costs before LTNC items, will be c. £190 million lower than the FD.

Net new borrowing from the Scottish Government in 2025/26 is planned to be £170 million. Planned investment, combined with responsive repair and refurbishment costs are forecast in a range of £1,113 million to £1,173 million. The expected cash balance at the end of 2025/26 is within a range of £50 million to £100 million.

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OUR APPROACH TO RISK MANAGEMENT

At Scottish Water, we navigate a complex and ever-changing risk landscape, managing extensive infrastructure within a highly regulated industry. Effective and systematic risk management is at the heart of our operations. It helps us stay aware of and understand the various factors, both within and beyond our control, that impact our work.

We are committed to a responsible and innovative approach to risk management. Our well-established, integrated Risk Management System is designed to help us maintain a clear understanding of risks in the dynamic environment in which we operate[36]. Central to our risk management strategy are three key pillars: **Awareness**, **Competence**, and **Management**, as illustrated in [Figure 1].

Our approach is designed to improve how we assess and prioritise our activities, enabling us to make more confident and effective decisions, whether we are responding to immediate issues or anticipating future challenges. By reducing threats and maximising opportunities, our system empowers our people to not only meet but exceed our organisational goals and strategic ambitions. This ensures that we are always prepared to tackle the challenges ahead, securing a sustainable and successful future for Scottish Water.

Figure 1 - Our Approach to Risk Management

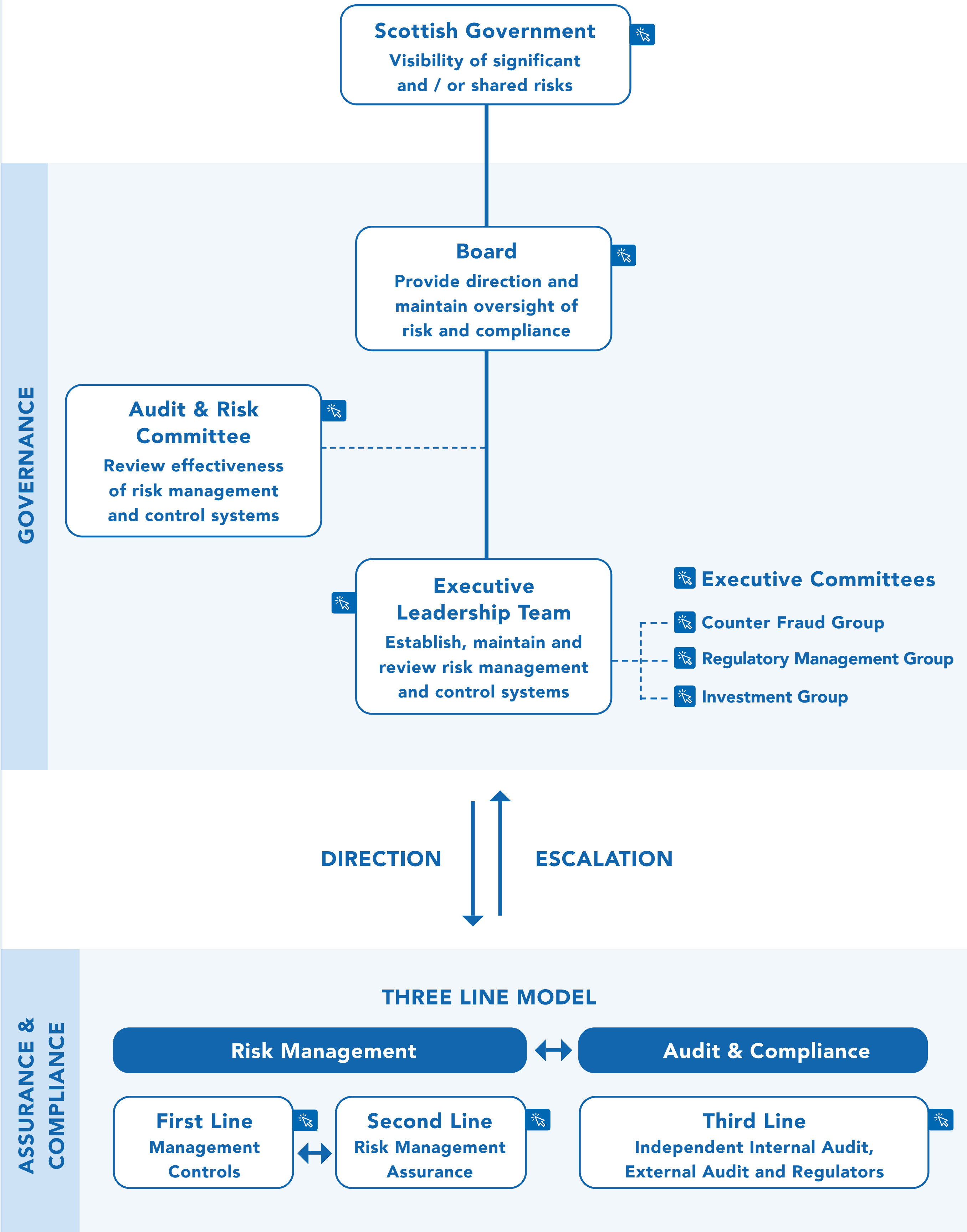
[36] The scope of Scottish Waters Risk Management System includes both Scottish Water and our subsidiary, Scottish Water Horizons Limited. In compliance with the Water Services (Governance Code) Directions 2013, it excludes operational risk management for Scottish Water Business Stream Limited. The Board of Scottish Water Business Stream Holdings Limited oversees the financing risks associated with Business Stream, while Business Stream's Board is responsible for its own risk management. Water Industry Commission for Scotland The Convention of Scottish Local Authorities Private Finance Initiative.

RISK GOVERNANCE AND ASSURANCE FRAMEWORK

We are committed to a responsible approach to risk assurance and compliance. As such we have established a robust and effective risk governance framework, underpinned by the three-line assurance model, to ensure we manage risks effectively and responsibly.

The overall leadership and accountability for our risk governance framework lie with the Board, supported by the Audit & Risk Committee, the Executive Leadership Team, and its sub-groups. As illustrated in [Figure 2,] these governance groups play crucial roles in ensuring that our risk management activities are both in place and effective.

Figure 2 - Risk Governance & Assurance Framework

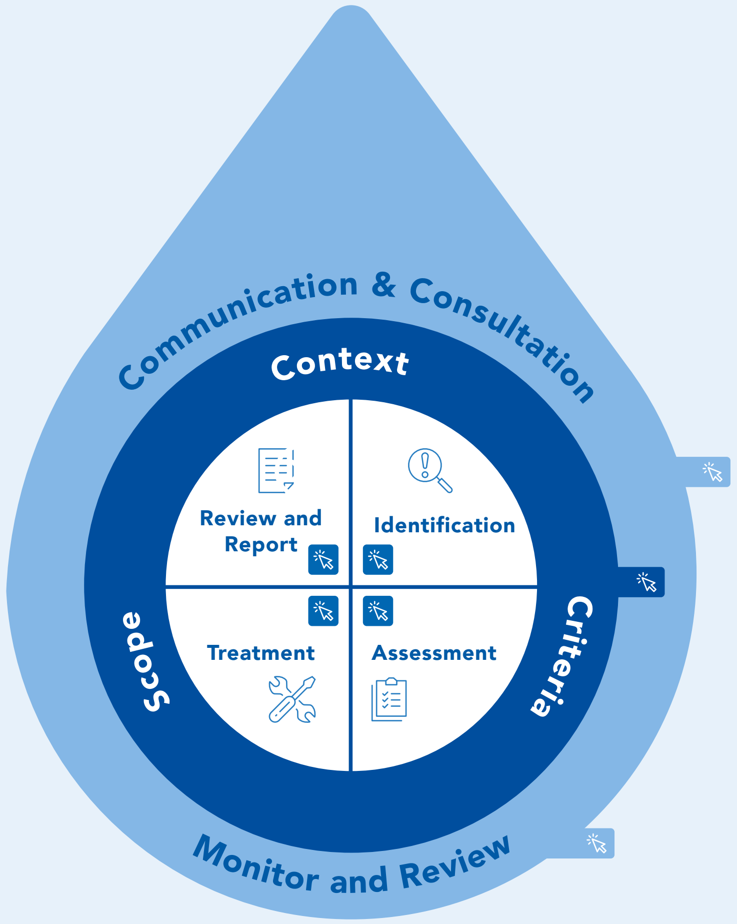


RISK MANAGEMENT APPROACH

Our risk management system is designed to align with the key principles of the ISO31000:2018 Risk Management Guidance, [as illustrated in Figure 3 below].

We have tailored our approach to meet the needs of our organisation, and the dynamic environment in which we operate. To ensure its continued effectiveness and alignment with best practices, we review our approach every three years. Our most recent review was conducted in 2024/25, with the next review scheduled for 2027/28. An audit was undertaken in early 2025/26 which assured the effectiveness of our processes and their application.

Figure 3 - Risk Management Approach



Risk Process

At Scottish Water, everyone in our organisation plays a vital role in identifying, assessing, escalating and managing risks. To ensure a consistent approach to assessing the impacts of risks, whether they are threats or opportunities, we use a corporate risk scoring matrix. This tool helps us determine the consequences, likelihood, and ranking of each identified risk in a comparative manner.

Our risk information is stored within a digital solution, which allows for structured monitoring and review of risk data. This system supports the analysis and understanding of trends, patterns, and overall risk positioning. By using this approach, we enable risks to be managed at the most appropriate level, while still ensuring visibility of both the risks and the actions taken to manage them.

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Regular review and reporting of the organisation's threats and opportunities are critical components of our management system. Formal reviews are conducted at least three times a year across business functions and are reported to the Executive Leadership Team, Audit & Risk Committee, and the Board. To further support the visibility of collaborative risks and mitigation strategies, and to enable the escalation of these within the wider Scottish Government risk framework, the Board provides an annual report on the organisation's key risks to the Scottish Government.

Risk Culture

The cornerstone of our risk management approach is fostering an effective risk culture. This culture supports the identification, assessment and management of risks, ensuring that we are always prepared to address potential challenges.

Our risk culture is built on several key elements:

- **Clear Communication of Risk Appetite:** We consistently articulate and communicate our risk appetite, ensuring our people understand the level of risk we are willing to accept.
- **Shared Understanding of Expectations:** Our people are guided by the Scottish Water Character traits.
- **Leadership by Example:** Our leaders continually demonstrate the expected behaviours, setting a strong example for our people.
- **Active Risk Champions and Communities:** We have numerous active risk champions and communities across business areas. These groups support the sharing of knowledge and drive continual improvement in our risk management practices.
- **Tailored Communications and Training:** We provide targeted communications, awareness programmes, training, and mentoring to ensure our people are equipped to manage risks effectively.

By fostering a culture of shared responsibility and utilising advanced tools and processes, we ensure that we are well-prepared to manage risks effectively and continue to achieve our strategic goals.

Risk Appetite

Clearly articulating and understanding our risk appetite is essential for effective risk management and informed decision making. At Scottish Water we define risk appetite as "the level of risk we are willing to accept in the pursuit of our business objectives." This risk appetite is reviewed and approved by the Board before each regulatory period, or whenever there is a significant change in our operating environment.

We categorise risks into five Risk Appetite Perspectives: Managing our Assets, Working with People, Managing External Influences, Developing the Business, and Scottish Water Subsidiaries. For each of these perspectives, we maintain Risk Appetite Statements that outline our approach to managing risks in key business areas. These statements are supported by measurable Risk Appetite Definitions, which help us determine whether we are operating within our risk appetite or if additional risk management activities are needed.

Throughout the year, we continuously review our performance against our risk appetite. Biannual updates are provided to the Executive Leadership Team, Audit & Risk Committee, and the Board to ensure that we are on track. By maintaining a clear and structured approach to risk appetite, we ensure that Scottish Water can effectively manage risks and make informed decisions that align with our strategic goals and objectives.

As part of our routine risk management processes, a review of our risk appetite is underway, to support and inform the next regulatory period 2027-2033.

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RISK ENVIRONMENT 2024/25

Our risk environment is dynamic and challenging; at Scottish Water we routinely encounter a range of internal and external threats and opportunities, which we seek to proactively manage in order to ensure the continuity and sustainability of our services to our customers.

Internal Threats

Managing our **critical assets** remains a significant focus with our ongoing investment primarily directed towards maintaining and upgrading our **ageing infrastructure**. This is essential to ensure that we continue to provide reliable and sustainable services to our customers.

This task is however becoming increasingly challenging due to a number or factors. The changing climate brings more **unpredictable weather patterns**, which can put additional strain on our infrastructure. Financial constraints, particularly those arising from the **cost-of-living crisis**, also add pressure as we strive to balance necessary investments with **affordability** for our customers.

Moreover, **customer expectations** are continually rising. People expect not only consistent and reliable service today but also improvements and innovations that will meet their needs in the future. Balancing these expectations with the realities of our operational, financial and environmental challenges is a complex task, but one that we are committed to managing effectively.

To reduce these risks and prepare for the future, we are seeking bold and innovative approaches to complement our traditional engineering-based solutions. This includes focusing on **partnership working**, engaging both the public and private sectors to work collaboratively toward resolutions. We will also increase our work with our **customers and communities** to support understanding of their impacts and influences, in areas such as water conservation and waste disposal and recycling. While we have ambitious plans to enable change and support the management of our key risks, these initiatives are not without risk themselves. We depend on achieving effective external support, and sufficient momentum, to positively effect change.

External Threats

Extreme weather and the evolving impact of **climate change** is one of the most significant external threats we face. These conditions can lead to more severe weather events, requiring increased investment in our infrastructure to ensure resilience and reliability.

Global political shifts and **economic instability** has more recently emerged as areas of increasing concern. These factors can affect our financial stability, as well as impact on the reliability of our supply chain. The ongoing geopolitical environment adds additional complexity, influencing many of our principal risks.

The ability to protect our digital estate from **cyber threats** remains a considerable risk. Increased sophistication of attacks, including the use of Artificial Intelligence (AI), and the evolving threat from cyber criminals and state-sponsored actors require constant vigilance. Similarly, our **reliance on third parties** to support the delivery of our business activities is crucial. Recent high-profile failures in this domain include the July 2024 Crowd Strike IT incident and the April 2025 Spanish Power outage, which highlight the importance of understanding and managing third party dependencies.

Regulatory changes present additional external challenges. Evolving regulatory processes and the need to comply with new standards can impact our operations. We must stay agile and responsive to these changes to maintain compliance and operational efficiency.

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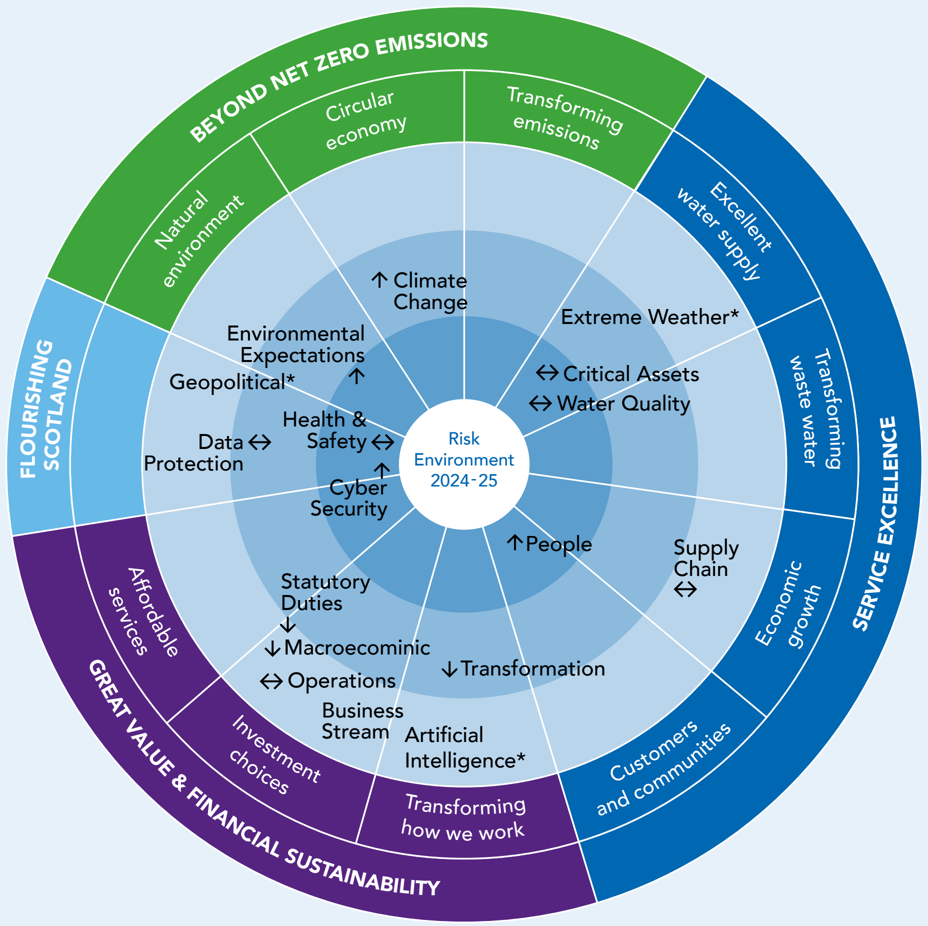
PRINCIPAL RISKS & UNCERTAINTIES

In preparing this report, the Board has conducted a thorough assessment of the principal risks and uncertainties facing Scottish Water and its subsidiaries. The risks identified are those deemed most significant to our business and performance; these are the risks that could potentially threaten our business model, impact our future performance within our regulatory framework, and affect both the short and long-term financing of Scottish Water.

[Figure 4] provides a visual representation of the principal and emerging risks in relation to Scottish Water's strategic ambitions and objectives. The diagram illustrates how each principal risk could affect our strategic ambitions, with those positioned nearer the centre indicating a higher likelihood and greater consequence. Emerging risks, indicated by an asterisk (*), are not yet fully understood and are continually monitored and analysed. They are also shown on the outer ring.

Figure 4 Principal & Emerging Risks



Other Notable Risks

Beyond the principal risks and uncertainties detailed, Scottish Water also actively manages several other high-consequence but lower-likelihood risks. These include operational risks that stem from impacts or reliance on third parties, risks associated with potential damage to critical national infrastructure managed by third parties, such as oil and gas transmission pipes and railways; and operational risks which can also arise from third parties impacting our assets.

We also manage risks related to revenue, water availability, evolving regulatory processes, and the possibility of contractors not fulfilling their obligations.

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STRATEGIC AMBITION: GREAT VALUE & FINANCIAL SUSTAINABILITY

Principal Risk Table

RISK	STATUTORY DUTIES: Inability to access full regulatory financing for 2021-27 resulting in reduced ability to deliver our statutory duties, including Ministerial Objectives, increasing the prospect of service deterioration and/or enforcement action.	Trend: Reducing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We will always have sufficient financing through revenue and borrowing in order to undertake our activities. We should always have immediate access to a minimum of approximately four weeks of operating cash to the regulated business from the group (excluding Business Stream) to enable us to protect the organisation from unplanned shocks and potential shortfalls in revenue.	• Identify and understand external financial pressures influencing customers and Scottish Water costs. • Ensure alignment of our charge setting process with Scottish Government's budget setting process. • Work with the Scottish Government to determine how financing may be secured if it is not feasible to increase charges to the extent envisaged in WICS'[37] Final Determination. • Monitor and manage asset performance and understand impacts should investment require to be delayed.	Customer charge increases took place for 2024/25 and 2025/26. A level of residual risk remains for the 2026/27 charges position, particularly in the lead up to the 2026 Scottish Elections.
RISK	MACROECONOMIC: Prolonged macroeconomic volatility and financial uncertainty resulting in an increased cost base, domestic and wholesale revenue impacts.	Trend: Reducing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We will always have sufficient financing through revenue and borrowing in order to undertake our activities. We should always have immediate access to a minimum of approximately four weeks of operating cash to the regulated business from the group (excluding Business Stream) to enable us to protect the organisation from unplanned shocks and potential shortfalls in revenue.	• Monitor UK and Scottish Government budget announcements and analyse impacts. • Ensure modelling remains up to date with current economic forecasts. • Monitor and, where possible, proactively manage cost base. • Maintain communications with CoSLA[38], Local Authorities, Licensed Providers and Scottish Government.	We continue to monitor the ongoing global financial market uncertainty, largely caused by changes in USA position on trade and foreign policy. The impact of these changes could have a negative impact on economies around the world, and we remain cognisant of the potential impacts on inflation, interest rates and economic growth in the UK.
RISK	PFI[39] OPERATIONS: PFI plant or operations fail to deliver in accordance with the contract terms resulting in financial and operational impacts.	Trend: Stable
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We seek to deliver services in an efficient and cost-effective manner, including via a number of PFI waste water contracts.	• Maintain ongoing strong relationships with PFI companies. • Monitor and manage PFI company performance. • Ongoing review of contingency plans for both the financing and operation of these contracts. • Manage the return of PFI Assets to Scottish Water, through an integrated approach between PFI companies and Scottish Water, as PFI contracts approach expiry.	We continue to closely monitor PFI contract performance. With the majority approaching the end of contract during SR27 (2027-33), efforts are focused on ensuring the effective transition of PFI assets to Scottish Water operation.

[37] Water Industry Commission for Scotland.
[38] The Convention of Scottish Local Authorities.
[39] Private Finance Initiative.

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STRATEGIC AMBITION: GREAT VALUE & FINANCIAL SUSTAINABILITY

Principal Risk Table

RISK	BUSINESS STREAM: Risk of increased demand on Scottish Water Group cash due to potential Provider of Last Resort (POLR)/Supplier of Last Resort (SOLR) event.	Trend: New
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
Business Stream will maintain a financially viable retail business.	• Operational readiness and incident response plan in place. • Review and exploration of supplementary funding options. • Continued updates and testing of operational readiness plan.	Due to Scottish Water Business Stream (SWBS) being the incumbent retailer within the Scottish market, in the event of a Provider of Last Resort (POLR) event, they would be allocated customers, pressurising working capital. Within the English market, SWBS also has an obligation to participate in the equivalent Supplier of Last Resort (SOLR) process for the Yorkshire and Southern regions.

OPPORTUNITY	TRANSFORMATION: Opportunities arising from the development and implementation of large-scale transformational programme resulting in achievement of our ambitions set out within the Strategic Plan; A Sustainable Future Together.	Trend: Reducing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We will seek to maximise any opportunities and minimise any threats arising from transformational change. We will explore how we can do things differently in order to create value and enhance sustainability.	• Regularly update and refresh the Transformation project portfolio to ensure alignment with Scottish Water's key priorities. • Keep under review the scale of transformational change required to deliver our strategic plan and ambitions. • Prioritise and sequence the Transformation portfolio of activities reviewing and refining six-monthly. • Manage business priorities to ensure adequate resource levels. • Continuously engage with internal and external stakeholders. • Deliver our change projects and programs and track business benefits.	Focus continues to deliver the Transformation Plan, supported by previous initiatives, including the portfolio refocus, the introduction of Theme Boards, and the enhancement of benefit capture reporting. Good progress has been made towards achieving the agreed financial targets for SR21 (2021-27). Efforts are currently underway to determine how transformation should be structured to support SR27 (2027-33) priorities.

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STRATEGIC AMBITION: SERVICE EXCELLENCE

Principal Risk Table

RISK	CRITICAL ASSETS: Failure of a critical asset or assets resulting in an impact to health and/or significant customer concerns.	Trend: Stable
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
Delivering a continuous service to our customers is paramount.	• Continue to develop detailed knowledge and understanding of our critical assets. • Undertake operational inspections, maintenance and emergency planning activities to minimise the risk and consequences of failure. • Identify investment needs for promotion in our future investment programmes, including ageing assets. • Meet the requirements of the Network and Information Systems Regulations (NIS) and the Scottish Government Public Sector Action Plan. • Ensure management of detailed emergency and business continuity response plans.	Investigations have continued to identify the criticality of our assets and their condition to better inform our short and long-term strategies. As this work continues, our understanding of what assets are truly critical, and our awareness of our risk exposure will increase. Over the long term, and with sustained investment in inspections, maintenance and network connectivity, our risk exposure will be reduced. Until all key mitigations are in place, however, we will remain exposed to impacts.

RISK	WATER QUALITY: Delivery of water which does not comply with standards resulting in an impact to health and/or significant customer concerns.	Trend: Stable
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
As a water utility company, the provision of safe drinking water remains our highest priority.	• Ensure skilled and trained employees operate our water assets. • Undertake routine monitoring of the water in our catchments, and in our treatment and distribution activities. • Undertake routine testing on water quality, beyond regulatory requirements, to manage drinking water quality and minimise associated risks. • Direct risk management activities through the Water Supply Risk Management Group including overseeing improvements related to Drinking Water Safety Plans. • Actively manage emerging themes / concerns via the Water Quality Improvement Group and implement appropriate actions to address. • Deliver significant investment to maintain and further improve water quality. • Ensure management of detailed emergency and business continuity response plans.	The most recent DWQR Annual Report (2023 report year) reported compliance with water quality standards at 99.88%, demonstrating the continuing high quality of drinking water that consumers in Scotland receive. Significant investment has continued across 2024/25 to further improve water quality, with the annual report covering 2024 due to be published in mid-2025.

RISK	SUPPLY CHAIN: Failure arising from fragile and structurally challenging supply chains resulting in operational, financial and customer service impacts.	Trend: Stable
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We should always endeavor to have an ethical and sustainable supply chain to meet our investment needs.	• Engage with chemical suppliers/manufacturers to understand product availability and ensure sight of emerging concerns. • Explore options for supply out with UK markets. • Continue dialogue with Water UK on chemical supply chain resilience. • Explore commercial opportunities to self-manufacture some key chemicals. • Explore innovative technologies to minimise reliance on chemical treatment. • Ensure regular risk based review and testing of Business Continuity Plans.	Collaboration across the water industry to understand resilience levels in the supply of key chemicals has provided increased confidence in supply chain security. Ongoing geopolitical tensions across the world and the change in US trade policy could further impact global supply chains and we remain cognisant of the impact this could have on our operations and investment programme.

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STRATEGIC AMBITION: SERVICE EXCELLENCE

Principal Risk Table

RISK	PEOPLE: Failure to retain, attract & incentivise key people and/or skills; Our people may not have sufficient resilience or capacity &/or are not effectively engaged resulting in impact on our ability to deliver core services effectively and drive transformational change.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We will ensure a sufficient capacity of engaged, enabled, diverse and energised people to the required areas of the business at the appropriate times, with the required skills and competency. We will provide appropriate support to enable our people to work in a safe, healthy and well manner wherever their work location.	• Implement reward framework and policy agreed with the Scottish Government. • Monitor and refresh People policies in line with best practice. • Refresh core reward structure, reflecting need to attract and retain essential skills and talent. • Review recruitment processes to enhance talent attraction. • Maintain regular engagement surveys through new digital engagement system adopted, adapt improvement plans. • Build on change capability and adaptive capacity and resilience. • Ongoing monitoring of short and long term absence, supporting and addressing cases. • Review risks related to essential skills and roles which could impact key activities. • Continue talent identification, with development and succession plans for key roles. • Review and refresh approach to performance conversations, supporting our people to contribute their best.	Levels of employee engagement have largely been positive throughout the year. Modernising Reward Foundations has now been implemented, and performance reviews have now been completed as part of our performance management framework. The introduction of a 35-hour working week commenced in November 2024, support continues to be provided for teams across Scottish Water to ensure an appropriate balance in reducing hours worked both for front line workers and office-based employees. Annual pay award negotiations, however, have been protracted, which has resulted in a period of industrial action. To date this has had a minimal impact on service.

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STRATEGIC AMBITION: NET ZERO EMISSIONS

Principal Risk Table

RISK	CLIMATE CHANGE: Failure to adapt to extreme and unpredictable weather events on assets and infrastructure, and changes to water resource supply and demand resulting in operational and customer service impacts.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
As a water utility company, the provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount. Scottish Water seeks to treat and return waste water in a way that does not harm the environment.	• Continue to develop the climate change vulnerability assessments. • Further update and undertake climate change risk assessments and apply these to service risk assessments. • Deliver the adaptation pathways set out in Scottish Water's Climate Adaptation Strategy and plans. • Include carbon costing in appraisals. • Deliver investment in water assets, including 25-year water resource and resilience planning and improved system connectivity, raw water monitoring, catchment management and capability studies. • Deliver investment in waste water assets, including surface water management plans, treatment capability assessments and improved service resilience through flood protection of assets.	Climate change and more variable and extreme weather patterns are anticipated to present a challenge across the water industry. Work continues to understand the adaptation needs of our business and to deliver solutions to these needs. Scottish Water is committed to contributing to the mitigation of climate change and considerable work is underway to achieve our net zero emissions target.

RISK	CHANGING ENVIRONMENTAL EXPECTATIONS/OBLIGATIONS: Failure to meet increasing environmental expectations and obligations, including discharges to the environment from combined sewer overflows resulting in reputational damage, perceived/actual non-compliance, and enforcement action.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We seek to treat and return in a way waste water what does not harm the environment or cause nuisance to our customers. We should avoid any action which would result in a serious loss of confidence.	• Deliver Improving Urban Waters Routemap including improved monitoring capability at priority locations, network intelligence and reporting to SEPA and the public. • Continue to improve communication strategies and customer and stakeholder engagement - e.g. Nature Calls campaign. • Undertake assessment to better understand and inform our current network and waste water treatment workflow compliance position. • Ensure licenses are varied to reflect changing parameters. • Ensure continued engagement with SEPA to review and agree approach. • Communicate the role of waste water system environmental interactions, performance and scale of potential change required.	There is an increasing awareness of the UK water industry's interactions with the environment, and this continues to be scrutinised for environmental performance and potential impacts. Scottish Water continues to increase data collection and understanding of our assets performance and continues to prioritise activities where the environment may be impacted.

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STRATEGIC AMBITION: FLOURISHING SCOTLAND

Principal Risk Table

RISK	HEALTH & SAFETY: Harm arising from our assets, activities and actions resulting in impact on the health & safety of our people, contractors, supply chain, customers and the public.	Trend: Stable
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We will ensure the health & safety of our people, contractors, supply chain, customers and the public remain paramount. Our behaviours, activities and assets should therefore not place at risk the health, safety or wellbeing of Scottish Water people, contractors, supply chain, customers and the public.	• Operate an effective Health & Safety Management System and processes. • Continue to review, progress and deliver initiatives within our Strategic Health & Safety Improvement Plan including those related to contractor management. • Ongoing maintenance, maturity and optimisation of processes to maintain and strengthen our Health & Safety performance. • Further embed health and safety in our culture and processes via engagement and awareness raising. • Review and refresh mandatory Health & Safety training packages. • Continue routine Health & Safety Site Inspections. • Investigate all accidents and incidents and track necessary remedial actions, including learnings for continuous improvement. • Conduct a strategic review of contractor Health & Safety performance, and with supply chain to develop and implement a Contractors Health & Safety Performance Improvement Plan. • Regular health & safety reporting to key governance groups.	Significant activities are underway as part of our rolling Health & Safety programme to manage our Health & Safety obligations and maintain or, where appropriate, improve our performance. The collaborative approach of our Industry Collective, Beyond Zero Harm strategy and the continued development of the We Care, Your Safety, Our partnership Improvement plan, sets us on a culture change trajectory with our supply chain partners.
RISK	CYBER SECURITY: Deliberate external or internal attack (physical/ virtual) resulting in a loss of key information technology and/or operational technology impacting operations, finances and reputation.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Overall Risk Position**
We seek to ensure the integrity and security of our digital estate.	• Continue to build on the organisational wide education and awareness programme rolled out. • Undertake regular application of security patching. • Utilise security tooling including External Expert Vulnerability and Threat Management service. • Undertake routine security gap analysis; plans in place to further increase maturity level. • Comply with Network and Information Systems (NIS) Regulations and comply with Scottish Government Public Sector Cyber Resilience Action Plan. • Maintain ISO27001 (Information Security Management) certification for Scottish Water Data Centres. • Continue activities to fully understand dependencies and implications of cyber-attacks on third parties i.e. supply chain or revenue partners. • Participate in UK & Scottish Government and industry cyber incident exercises. • Review and test detailed disaster recovery & business continuity plans.	This risk continues to be driven by the wider external environment. The increasing trend is largely due to the growing use of Artificial Intelligence (AI) by cyber criminals seeking to break the defenses of organisations. This trend could be maintained in the short/ medium term as the availability of quantum computing increases, and the impact this could have on existing cyber security protocols is understood. Mitigating strategies will be continually reviewed to adapt to evolving external threats.
RISK	DATA PROTECTION: Failure to maintain a suitable and sufficient framework resulting in non-compliance with legislative obligations and reputational harm.	Trend: Stable
Risk Appetite	**Key Mitigations**	**Trend: Increasing**
We seek to safeguard customer and employee data by complying with relevant standards.	• Continue to review and communicate data protection policies, processes and guidelines in place. • Maintain ongoing awareness raising of data protection and requirements under the Data Protection Act 2018. • Manage and maintain corporate privacy notices. • Review and communicate of processes to ensure data breaches are identified, reported and investigated in a timely manner. • Continue to embed and review practices.	As the data security landscape continues to mature we remain focused on ensuring our approach to data security continues to meet current regulations. We continue to adapt and embed our policies, processes and guidelines in support of current regulations, learning from external breaches and the ramifications of these where appropriate.

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TASKFORCE FOR CLIMATE RELATED FINANCIAL RISK DISCLOSURES

Scottish Water Adaptation Plan | Carbon Footprint | TCFD Declaration

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RISK	WATER QUALITY: Increase in temperatures, increasing risk of drought and extreme rainfall can impact water quality resulting in deterioration of raw water quality, impact on asset treatment capability and customer service.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Background**
As a water utility company, the provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount.	• Understand changes to raw water quality under future climate scenarios. • Understand capabilities and options to optimise current treatment processes. • Integrate climate change into Sustainable Investment Decision Making and long term investment planning • Continue to deliver sustainable land management to protect raw water sources. • Invest in further treatment capability to meet deteriorating raw water quality.	Climate driven increases in the temperature of water sources, erosion and land runoff from extreme dry and wet weather can increase the risk of algal blooms, particulates or chemicals such as manganese and dissolved organic carbon that subsequently need to be addressed though treatment. Some of our assets may not be capable of providing the required levels of treatment for potential future raw water quality under long term scenarios.

RISK	WATER SUPPLY/DEMAND: Reduced rainfall and hotter weather with increased customer demand resulting in supply / demand imbalance and drought triggers / restrictions in water use for domestic and non-domestic customers.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Background**
As a water utility company, the provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount.	• Build updated climate projections into long term water resource planning. • Integrate climate change into Sustainable Investment Decision Making and long term investment planning. • Complete the risk assessments of water supply systems. • Improve system resilience through improved inter-connectivity. • Maintain and implement drought plans as required. • Manage demand through leakage reduction. • Engage customers through messaging such as "use water wisely".	Climate impacts on water supply may result in drought triggers being applied and restrictions in water use for both domestic and non-domestic customers.

RISK	ASSET INTEGRITY: Extreme weather events preventing access to operate and/or damage to assets resulting in operational and customer service impact.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Background**
As a water utility company, the provision of safe drinking water remains our highest priority, and delivering a continuous service to our customers is paramount. Scottish Water seeks to treat and return waste water in a way that does not harm the environment.	• Carry out site risk assessments. • Review operational resilience plans to reflect climate risks. • Integrate climate change into Sustainable Investment Decision Making and long term investment planning • Improve site resilience through flood protection, resilient communications, power supplies and remote access. • Review interdependent risks and extend resilience planning to supply chain, power, transport and other third party service dependencies.	Extreme weather events can prevent or impact the operation assets and may be exacerbated by climate change. Examples include direct storm damage, flooding of an asset or site inoperability due to a power outage, inability to access a site or supply key materials.

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TASKFORCE FOR CLIMATE RELATED FINANCIAL RISK DISCLOSURES

Scottish Water Adaptation Plan | Carbon Footprint | TCFD Declaration

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RISK	WASTE WATER FLOODING: Increased and/or more intense rainfall events resulting in an overloaded capacity of assets, customer service and environmental impact.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Background**
Scottish Water seeks to treat and return waste water in a way that does not harm the environment or cause nuisance to our customers.	• Ensure assets are maintained to enhance capacity and avoid blockages, collapses and siltation, etc. • Integrate climate change into Sustainable Investment Decision Making and long term investment planning. • Deliver growth projects. • Reflect future climate risk into drainage modelling and hydraulic design. • Continue strategy of removing and preventing stormwater entering assets.	Flooding events (internal & external) and environmental pollution incidents can be caused by a number of factors. Changing climate however is likely to exacerbate these events primarily through overloading the capacity of our assets (increased rainfall/ ingress / infiltration).
RISK	INCREASED REVENUE: New supplies for growth in industries such as hydrogen and increased domestic connections through climate related migration resulting in additional wholesale revenue.	Trend: Increasing
Risk Appetite	**Key Mitigations**	**Background**
We will always have sufficient financing through revenue and borrowing in order to undertake our activities.	• Engage with new industries to determine location for facilities i.e. where headroom capacity is available. • Understand and maintain plans for growth. • Deliver growth projects.	In addressing climate impacts and in achieving net zero targets, new industries such as the hydrogen industry may open up a new wholesale revenue stream. Opportunity for provision of new supplies to new customers (climate migrants and private water supplies) may also result in an increased revenue.

GOING CONCERN AND VIABILITY STATEMENTS

The Members of Scottish Water's Board have concluded that it is appropriate to adopt a going concern basis in preparing the financial statements. The going concern basis confirms that there are adequate resources to remain in operation for at least one year from the date that the financial statements are signed.

The viability statement, under the 2018 UK Corporate Governance Code, takes a longer-term perspective of the group's operational sustainability. The two statements are set out below.

Going concern

Scottish Water's business model, activities and the factors that could impact on its future development and performance are described in the strategic report on pages 14 to 82. The principal risks and uncertainties are described on pages 65 to 81.

Scottish Water operates under an annual borrowing limit set by the Scottish Government. The annual borrowing limit controls the amount by which Scottish Water can increase its externally sourced finance. In addition, Scottish Water's charging structure is reviewed through a regulatory process and charges are approved annually by the Water Industry Commission for Scotland.

As at 31 March 2025, Government loans totalled £4.9 billion and Scottish Water group held cash and cash equivalents of £270 million.

In considering the basis of accounting, cash flow forecasts have been prepared for a period of at least 12 months from the date of approval of these financial statements which consider various scenarios, taking into consideration severe but plausible impact downside risks. These forecasts include the assessment of the group's strategic and financial frameworks, including the borrowing limit, operational positions and the level of the capital investment programme. Under all the scenarios, Scottish Water will be able to operate within its available facilities.

The Members, taking all relevant factors into account, consider that Scottish Water will have adequate resources to continue in operational existence for the next 12 months. Accordingly, the accounts continue to be prepared on a going concern basis.

Viability statement

In line with provision 31 of the UK Corporate Governance Code, the Members have assessed the prospects of the group over a longer period than the 12 months required by the "Going Concern" provision. The Members consider that a 6-year period is appropriate because it is consistent with its near-term rolling investment planning horizon. Members confirm that they have a reasonable expectation that the group will be able to continue in operation and meet its financial obligations as they fall due over the next 6 years to March 2031.

In making their assessment, the Members considered the resilience of the group, taking account of its strategic and financial frameworks, including the borrowing limit, operational positions and the level of the capital investment programme. They considered the potential impacts, in severe but reasonable scenarios, of the principal risks, set out on pages 65 to 81, and the probable degree of effectiveness of current and available mitigating actions.

The key processes used by Members for their assessment are summarised below:

The main business and strategic planning processes cover the regulatory period to March 2027, based on key assumptions in respect of the funding of the business. In December 2020, the WICS published their Final Determination for the 2021-27 period. In addition, Scottish Water published its 25-year Strategic Plan for the period to 2045 and has submitted its draft Business Plan for the 2027-33 regulatory period. Business planning is a continual process which forecasts the performance and liquidity of the group over the regulatory period with additional focus on the affordability and phasing of the 6-year rolling investment programme. The planning process considers base, downside and severe downside financial and economic scenarios.

Quantitative stress and scenario testing which consider the primary individual and combined quantitative risks relating to liquidity.

Qualitative scenario testing which gives a qualitative understanding of plausible but severe risk scenarios which could threaten the viability of the group and informs related management actions. The scenarios tested are based on the principal risks and include widespread contamination of water supply giving rise to emergency response and recovery, a critical infrastructure breakdown and cyber-attack.

In conclusion for this assessment, Members have assessed the prospects and viability of the group over a 6-year period to March 2031.

BOARD MEMBERS

Executive members

Alex Plant, Chief Executive

Alex took up the role of Chief Executive in June 2023. He was previously Director of Strategy and Regulation at Anglian Water, where he worked from 2014. Prior to working in the water sector, he held roles at Cambridgeshire County Council, the Civil Aviation Authority, and HM Treasury. He has also held several non-executive director roles including with NHS Cambridgeshire, the Centre for Cities, and was Chair of the East Anglia Productivity Forum. Alex is a graduate of Nottingham University.

Peter Farrer, Chief Operating Officer

Peter was appointed Chief Operating Officer in 2013 having formerly been Customer Service Delivery Director, General Manager of Asset Planning and Business Performance and General Manager of Operations. Prior to this he held operational and engineering roles in Scottish Water's predecessor organisations, East of Scotland Water and Lothian Water and Drainage. He has 40 years' experience in the water industry since graduating from Heriot Watt University as a Civil Engineer. He is a Chartered Civil Engineer, gained an MBA from Edinburgh Business School and is a Fellow of the Institution of Civil Engineers and a Vice President of the Institute of Customer Service.

Alan Dingwall, Chief Financial Officer

Alan joined Scottish Water as Chief Financial Officer in June 2024 after a career in different industries in a range of finance and commercial leadership positions. Prior to working at Scottish Water, he spent a decade with Serco, a provider of public services to local and central governments in a range of environments including healthcare, justice, defence and transport. Alan brings a passion for public services and supporting customers and communities, as well as strong business and commercial instincts. He has worked at Board level in Executive positions and as a Non-Executive Director.

Non-executive members

Deirdre Michie OBE

Deirdre is a senior leader and business executive. Her experience covers the energy value chain. She was appointed CEO of Offshore Energies UK in 2015, which she held for eight years and was instrumental in landing the landmark North Sea Transition Deal, to help to deliver UK net zero by 2050. She was a leading member of several UK and Scottish industry and business government forums including the Women's Business Council. Deirdre is also a Board member of Opportunity North East Ltd and a patron of Scottish Ballet. Deirdre was awarded an OBE for her services to the energy Industry (2018), an Honorary Doctorate from Robert Gordon University (2021) and a Fellowship from the North East of Scotland College (2019).

Allan Clow

Allan is an experienced Non-Executive Director and former main Board Managing and Finance Director. He is a Non-Executive Director of Highlands & Islands Enterprise, Wheatley Homes Glasgow, Wheatley Developments Scotland, University of the Highlands & Islands, Turning Point Scotland and Glencraft Mattresses. He is a chartered management accountant and is Audit Chair of the University of Highlands & Islands and member of the Audit & Risk Committees of Highlands & Islands Enterprise, Wheatley Group and Turning Point Scotland. Previously he was Chief Financial Officer of Superglass Plc, CHAP Holdings Ltd, Bancon Development Holdings Ltd. He was also the Managing Director of Bancon Homes Ltd and Bancon Construction Ltd.

Graham Dalton

Graham is a chartered civil engineer and fellow of the Royal Academy of Engineering with 35 years' experience planning, building and operating large infrastructure in the UK, Middle East and Far East. From 2016 to 2022 he was Chief Executive of the Defence Infrastructure Organisation responsible for the UK Defence Estate. Previously he was Chief Executive of National Highways. Graham is a non-executive director of Energy and Utility Skills and a Policy Fellow of the Institution of Civil Engineers

Steve Dickson

Steven had a 32-year career in BT, latterly leading BT's Global Contract Assurance program focusing on major contracts in the Americas, Europe and Asia Pacific. He was a member of the leadership team at BT Group Business Services. He is also a Non-Executive Director at The Scottish Courts & Tribunals Service, Member of the Armed Forces Pay Review Body and a Trustee Director of the BT Pension Scheme. He was a member of the National Executive Committee for Prospect union, having occupied various executive positions since 2013 and was a senior negotiator on the BT Pay and Reward Committee and served on the governance board of BT's Retirement Saving Scheme in 2018. He is also Chair of the Prospect Scotland Regional Branch and is a member of the National Federation of Occupational Pensioners.

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Non-executive members

Iain Lanaghan

Iain joined the Board in 2017 and chairs the Audit & Risk Committee. He is an experienced Non-Executive Director and former Main Board finance director. He is currently Lead NED of the UK Supreme Court and a NED and Audit Chair of the North Sea Transition Authority. He is also a member of the Audit & Risk Committee of the Royal United Services Institute. He was previously Senior Independent Director and Audit Chair of UK MOD Defence Equipment & Support, and a Non-Executive Director and Audit Chair of UK National Nuclear Laboratory. He has been an Executive and Non-Executive Director of private equity backed companies. He was Finance Director of FirstGroup plc, Faroe Petroleum plc, PowerGen International and Atlantic Power. He is a member of the Institute of Chartered Accountants of Scotland, having qualified with KPMG in London.

Ian McAulay

Ian McAulay is an experienced senior executive in the global water, environmental and energy sectors. In a career spanning over 40 years he worked with many utility companies, including Scottish Water, in delivering major infrastructure and operational enhancement investment programmes. In the UK, he spent ten years until 2022 as CEO of Viridor and Southern Water leading all aspects of their businesses. Prior to that, he was Global Chief of Strategy for MWH, working worldwide. In a non-executive capacity, he is currently Chair of Papilo Ltd and Isle Utilities Ltd and a board member of Severfield plc. He was also a board member of the Institute of Water for several years until 2024. Ian was awarded Fellowship of the Institution of Civil Engineers in 2020.

Ken Marnoch

Ken has over 35 years' experience working in the energy industry, initially based offshore in the North Sea based in Aberdeen, and subsequently 17 years in assignments overseas. His has held roles leading regional and country businesses in the Americas, the Middle East and South-East Asia focusing on safety, bottom-line delivery and investment in people. He is at his best when analysing the possibility of greater potential and capturing opportunity in a given situation, constantly curious and enrolling others on what could be improved.

Catriona Schmolke CBE

Catriona Schmolke CBE joined the Board of Scottish Water in November 2021 and serves as a member of the Audit & Risk Committee. She is a Non-Executive Director, a chartered engineer, and has 40 years of experience in the infrastructure sector. Previously, she was the global Senior Vice President at Jacobs, where she led international operations focused on safety and sustainability. She is a Fellow and former Vice President of the Royal Academy of Engineering. She is the Chair of Artus Air Ltd, and Board member with the UK National Physical Laboratory and NES Fircroft Ltd. She received a CBE for services to engineering in 2023. She joined the Board of the UK Nuclear Decommissioning Authority in 2025.

CORPORATE GOVERNANCE REPORT

Members

The Chair and other Non-executive Members are appointed by Scottish Ministers. Executive Members are appointed by Scottish Water after receiving consent to their appointment from Scottish Ministers. The Members as at the date of this report and their biographies are set out on pages 83 to 85.

Executive Board appointments are based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, including gender. Non-executive Board appointments are made by the Public Appointments team of the Scottish Government. That team operates in accordance with the Code of Practice and the Diversity Delivers strategy published by the Ethical Standards Commissioner. Both the Code and the strategy are applicable to all public appointments.

The Board of Scottish Water currently comprises of 11 members: 8 Non-executive Board Members and 3 Executive Members. The Board has a formal schedule of matters specifically reserved to it for decision-making. Reporting to the Board are the Chief Executive and the Executive Members, who have responsibility for the management of Scottish Water, and the Board Committees detailed below.

In accordance with the best practice recommended in the UK Corporate Governance Code, there is a clear division of responsibilities between the Chair and the Chief Executive. Scottish Water also benefits from the expertise of its Non-executive Board Members whose range of experience brings independent judgement on issues of strategy and performance, which are vital to the success of Scottish Water.

During the financial year of 2024/25, the Board met on 10 occasions to review Scottish Water's operational and financial performance, business strategy and risk management.

UK Corporate Governance Code

Scottish Water complies with the Governance Directions issued by Scottish Ministers which include elements of the revised UK Corporate Governance Code published by the Financial Reporting Council (FRC) in July 2018, so far as applicable to its status as a Statutory Public Corporation. As Scottish Water is not a company registered under the Companies Act, the Financial Conduct Authority (FCA) listing rules are not applicable and an Annual Consultative Meeting (ACM) with stakeholders is held in place of an Annual General Meeting. The 2024 ACM was held at Aberdeen Science Centre on 19th September 2024. The arrangements for appointment and termination of Board Members and their remuneration are derived from the underlying statutory regime and set out in the Members' Remuneration Report. No Senior Independent Director has been appointed as other arrangements are in place to consult with stakeholders. The Audit & Risk Committee Report on pages 90 to 93 covers the appointment of the external auditor.

Board and Committees

Attendance at the Board and the two principal Board Committees is shown in the table below.

	Board		Audit & Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Deirdre Michie	10	9	-	-	-	-
Alex Plant	10	10	-	-	-	-
Peter Farrer	10	10	-	-	-	-
Alan Dingwall	10(*8)	8	-	-	-	-
Allan Clow	10(**2)	1	5(*1)	1	-	-
Graham Dalton	10	10	5	5	-	-
Steven Dickson	10	8	-	-	5	5
Iain M Lanaghan	10	10	5	5	-	-
Ken Marnoch	10	10	-	-	5	5
Ian McAulay	10	9	-	-	5	5
Catriona Schmolke	10	10	5	5	-	-

* Alan Dingwall commenced on 3rd June 2024
** Allan Clow's term commenced on 1st February 2025

Audit & Risk Committee

The Audit & Risk Committee reviews the financial reports of Scottish Water and considers the results of the auditor's examination and review of the financial statements. It meets with management and with internal and external auditors to review the effectiveness of internal controls, governance and business risk management. The Chair of the Audit & Risk Committee reports to the Board on internal control and risk management matters following each Audit & Risk Committee meeting. The Committee adheres to the requirements of the Audit and Assurance Committee Handbook. Each year the Committee presents a report of its activities to the Board prior to the Board's consideration of this report.

A more detailed report of the Audit & Risk Committee's activities is provided on pages 90 to 93.

Remuneration Committee

The Remuneration Committee monitors the contract terms, remuneration and other benefits for each of the Executive Members, including performance-related incentive schemes. The Committee has access to external independent advice as it considers appropriate. A more detailed report of the Remuneration Committee's activities is provided on page 94.

Board and Committee Performance

An external review of Board and Committee effectiveness was undertaken during the financial year of 2024/25 and actions arising from it are being implemented. All actions arising from the internal review of Board and Committee effectiveness undertaken in 2023/24 have been implemented. Formal annual evaluation processes are in place for all Members, including the Chair. Induction and ongoing training is provided for Members with specific emphasis on finance, regulation and risk analysis.

Executive Leadership Team

The Chief Executive is responsible for the management and operation of Scottish Water within the strategy determined by the Board and is supported by an Executive Leadership Team which he chairs.

The members of the Executive Leadership Team who are also Executive Members are:

Alex Plant Chief Executive
Peter Farrer Chief Operating Officer
Alan Dingwall Chief Financial Officer

Internal Control

The Members of the Board recognise their responsibility for establishing, maintaining and reviewing the systems of internal control and risk management from a financial and operational perspective. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business and operational objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The systems of internal control are compliant with the relevant sections of the UK Corporate Governance Code and the Scottish Water Governance Directions 2023. They are based on an ongoing process designed to identify those risks material to the achievement of Scottish Water's policies, aims and objectives, to evaluate those risks and to manage them effectively in accordance with good risk management practices.

Risk Management

Scottish Water operates a systematic approach to managing risk which is detailed more fully in pages 60 to 64. These risk management processes have been in place for the full year under review and up to the date of approval of this report and financial statements.

Control Activities

Scottish Water's Internal Control Framework incorporates:

- Policy-making and strategic direction at Board level. There is a formal schedule of matters reserved for decision by Board Members.
- An organisational structure which clearly defines lines of authority and accountability.
- A statement of general principles pertaining to rules and procedures for the regulation of the business.
- Financial authority limits governing delegation of authority by the Board.
- Regular review by the Board and management of service, quality and financial performance compared to plan.
- Development of procedure manuals for staff instruction and guidance.
- Project approval, monitoring and control processes specifically developed for capital expenditure.
- Close monitoring undertaken by the Board and management of safety, health and wellbeing issues.

High quality personnel are viewed as an essential part of the control environment. Ethical behaviour is incorporated into conditions of employment. Demanding recruitment criteria, pre-employment vetting and, where required, additional government security checks, combine with the development and training of our people to support ethical standards.

Control Effectiveness Review

Reviewing control effectiveness is a continuous process throughout the financial year. The Board gains assurance as to the effectiveness of internal control through a collaborative approach, based on the work of internal and external audit, other internal and external review agencies, and Executive Members' reports. The controls assurance process is co-ordinated by Internal Audit and incorporates independent assessment by audit, and annual statements of assurance from senior management.

Information and Communication

Scottish Water has developed an annual budgeting and financial and performance reporting system that compares results with budget on a monthly basis, providing information for internal and external reporting. Key performance targets have been agreed with regulators and the Scottish Government.

Performance against these targets is reported monthly to the Board and quarterly to the regulators and the Scottish Government. Scottish Water has an ongoing programme of developing systems to assist customer service and decision making in financial and operational areas of the business. The overall aim is to produce relevant, reliable and timely operational, financial, and compliance related information, consistent with the objectives of the business, to enable management to exercise effective control and direction.

Scottish Water has a Consultation Code setting out how it consults with external stakeholders in relation to proposals for, and the undertaking of, significant core business activities.

Members of the Board meet quarterly with officials from the Scottish Government to discuss a range of business issues.

External Auditor

KPMG LLP, chartered accountants and registered auditors, were appointed as auditor by the Auditor General for Scotland in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Independence of External Auditor

The Auditor General for Scotland is responsible to the Scottish Parliament for securing the audit of the financial statements of Scottish Water. The Auditor General for Scotland appointed KPMG LLP as the auditor of Scottish Water for the financial years 2016/17 to 2021/22. In May 2022, KPMG LLP was re-appointed as Scottish Water's auditor for the financial years 2022/23 to 2026/27. Under the terms of KPMG LLP's appointment, they may not carry out any non-audit work for Scottish Water without the prior approval of Audit Scotland, and must comply with Scottish Water's policy on provision of non-audit services see page 93.

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AUDIT & RISK COMMITTEE REPORT

Annual statement by the Chair of the Audit & Risk Committee

I am pleased to present this report covering the role and function of the Group Audit & Risk Committee for the year ended 31 March 2025. During the year I was supported by 3 other Non-executive Members: Catriona Schmolke, Graham Dalton, and Allan Clow (from 1 February 2025).

I have relevant financial experience and my Committee members have been selected with the aim of providing the wide range of financial, governance, risk and commercial expertise necessary to fulfil the Committee's duties and obligations. Scottish Water's Managing Legal Counsel, was Secretary to the Committee.

Group Audit & Risk Committee Role and Responsibilities

The Group Audit & Risk Committee was established by the Board to support it in its responsibilities for issues of governance, risk and control and associated assurance and assessment through a process of constructive challenge. Although Scottish Water is not a listed company it does adopt and follow, as far as is appropriate, the accounting and disclosure practices of a listed company.

The governance framework adopted by the Committee links the objectives of Scottish Water's business strategy through the stages, outlined below, with the sources of assurance received from senior management and other assurance providers on the operation of key financial and risk management controls.

The Committee's main responsibilities are to oversee and report to the Board on:

- The strategic processes for the assessment of governance, risk and control and their effectiveness;
- The risk management framework, including risk appetite and horizon scanning;
- The accounting policies, the financial statements, principal risks, the interim and full year Annual Report & Accounts: Performance and Prospects;
- The planned activity and results of both internal and external audit, including approval of the annual and 3 year Internal Audit plans and strategy;
- The management response to issues identified by internal and external audit activities;
- The effectiveness of the internal control environment;
- Assurances on the corporate governance requirements for the organisation;
- Anti-fraud activities, whistleblowing processes, arrangements for special investigations and activities and reports by the Counter Fraud Group;
- Scottish Water's arrangements for complying with legislation and Directions issued by the Water Industry Commission for Scotland (WICS), including the regulatory Annual Return;
- The annual plan and report prepared by the Compliance Officer;
- The annual statement published by Scottish Water under the Modern Slavery Act 2015; and
- The annual tax strategy and statement.

The Terms of Reference of the Committee are approved by the Board and, in accordance with the Scottish Government Audit and Assurance Committee Handbook, are reviewed annually by the Committee. The Committee Terms of Reference are available on the Scottish Water website.

Scottish Water's subsidiary, Scottish Water Business Stream Limited (Business Stream) operates as a Licensed Provider, competing with other Licensed Providers in the Scottish and English markets to supply water and waste water retail services to business customers. Business Stream has its own Board of Directors and is operated in accordance with the Governance Code agreed with the WICS. The Governance Code sets out the operating regime that Scottish Water and Business Stream must comply with to enable the operation of the licensed retail market.

Business Stream has the same Chair as Scottish Water but has its own independent Board, Audit & Risk Committee and management team. Scottish Water exercises governance over Business Stream through Scottish Water Business Stream Holdings Limited (SWBSH) in accordance with the Governance Code. As a consequence of the restrictions within the Governance Code upon disclosure of Business Stream's activities, the Group Audit & Risk Committee is in large part reliant on the Board of Business Stream to provide much of the necessary assurance, with further assurance provided through governance of Business Stream by SWBSH, as detailed below.

Committee meetings

The Committee meets at least 4 times per year, 2 of which are co-ordinated with external reporting timetables.

During 2024/25 the Committee met on 5 occasions, with an extra meeting in June 2024 to review the draft Annual Report & Accounts: Performance and Prospects.

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In addition to the Committee members, the Scottish Water Board Chair, Chief Executive, Chief Financial Officer, Head of Internal Audit, General Manager - Financial Control, Group Legal Counsel & Director of Governance, and the external audit partner also attended the meetings by invitation. The Committee invites other senior management to present to the Committee on a regular basis on a variety of topics relevant to its work. In line with the Scottish Government's Audit and Assurance Committee Handbook, the Committee meets in private, excluding any Executive Members, with the external auditor and the Head of Internal Audit at least on an annual basis, or more frequently if required.

The Committee's activities

The Committee agrees an annual work programme including reports to be received from senior management, Internal Audit and the external auditor during the year.

As well as the normal financial reporting activities, the Committee's main activities during the year included the following:

- Reviewing best practice within the 2018 UK Corporate Governance Code;
- Assessment of corporate strategic and operational risks, risk management controls including risk appetite, risk management and control systems, the monitoring and review thereof, including sources of assurance and associated public reporting covering going concern and future viability;
- Discussing the work, the issues, management actions and themes in Internal Audit reports;
- Outcomes of investigations resulting from fraud allegations, whistleblowing and results from the Audit Scotland National Fraud Initiative;
- Forming its view of the "fair, balanced and understandable" and viability reporting obligations;
- Operation of the 2021-27 Capital Investment Value Assurance Framework;
- Update on risk management forward planning and risk horizon scanning; and
- Discussing specifically requested papers on cyber security and Network and Information Systems (NIS) compliance and supply chain structural risk.

Financial reporting

To inform the Committee's reports to the Board, the Committee reviewed and considered the following areas in respect of financial reporting and the preparation of the interim Accounts and the Annual Report & Accounts: Performance and Prospects:

- The appropriateness and quality of accounting policies;
- Compliance with financial reporting standards and clarity of associated disclosures; and
- Material areas in which primary judgements have been applied.

To assist in the discharge of its duties the Committee considers reports from the General Manager - Financial Control and reports from the external auditor on the outcomes of their half-year review of interim financial statements, including confirmation that the Accounts are prepared on a going concern basis.

The Committee also considered and was satisfied with the papers prepared by the General Manager - Financial Control and the external auditor covering the financial statements for full year 2024/25. These included a section from management supporting the going concern basis which the external auditor confirmed was appropriate. Our view was supported by statutory and regulatory provisions applicable to Scottish Water, namely that:

- The WICS published the Final Determination for 2021-27;
- The Scottish Government want the industry to be financially sustainable for the long term which requires Scottish Water to be adequately funded to meet its statutory obligations and that Scottish Water can count on those resources being available;
- Under the Water Industry (Scotland) Act 2002, Scottish Water is deemed to have exercised its core functions effectively in making use of those resources to achieve the Ministerial Objectives and do so at the lowest reasonable cost;
- The WICS have a duty, under the same legislation, to ensure Scottish Water's receipts are sufficient to meet the expenditure required for Scottish Water to exercise its core functions; and
- The legislation therefore ensures, as far as possible, that Scottish Water will be sufficiently funded to meet its core functions, including the power to apply to the WICS to increase Scottish Water's charges if there is a material change in Scottish Water's ability to finance expenditure on core functions.

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Business Stream's Chief Financial Officer, the Chair of its Audit & Risk Committee and the external auditor are also in attendance when the Committee reviews the consolidated interim and annual financial statements.

The Board of SWBSH receives reports from Business Stream's management covering financial performance and specific risks facing Business Stream.

The primary areas of judgement considered by the Group Audit & Risk Committee in relation to the 2024/25 Accounts were:

- Risks within the corporate risk register which could impact on the financial statements and judgements therein;
- The primary areas of focus included the sensitivities on future household cash collection rates and wholesale revenue collection and the associated level of bad debt provisioning;
- The delivery costs associated with Scottish Water's capital investment programme and the associated expenditure classifications; and
- The key assumptions associated with determining the actuarial valuation of pension obligations, and the ring-fencing of the Scottish Water element of each pension fund.

After discussion of these with management and the external auditor the Group Audit & Risk Committee was satisfied that the issues raised had been properly dealt with and that appropriate disclosures have been included in the accounts. The external auditor carried out their work using an overall materiality of £32.8 million, representing 1.5% of total annualised expenses incurred in 2024/25, in the consolidated income statement. However, the Committee agreed with the external auditor that the firm would report any misstatements identified during the audit above £1.64 million, as well as misstatements below that amount that, in their view, warranted reporting for qualitative reasons.

In addition, the Head of Internal Audit, the Head of Corporate Data & Compliance and the General Manager – Strategic Direction Sustainability carried out a review to verify that the Annual Report & Accounts 2024/25: Performance and Prospects is fair, balanced and understandable, the results of which were considered by the Committee prior to recommending Board approval of the Annual Report & Accounts 2024/25: Performance and Prospects.

Consequently, and supported by a comprehensive management and statutory accounts process, with written confirmations provided by senior management on the 'health' of the financial and risk control environment, the Committee and the Board are satisfied that the Annual Report & Accounts 2024/25: Performance and Prospects, taken as a whole, are fair, balanced and understandable, and provide the information necessary to assess Scottish Water's performance, business model and strategy.

Scottish Water's Internal Control and Risk Management Processes

Over the year the Committee received papers from Scottish Water Group Finance and the Group Legal Counsel & Director of Governance associated with the 2018 Corporate Governance Code.

In addition, the Committee reviews the framework of internal controls and the processes by which the organisation's control environment is evaluated. To support this, the Committee receives and considers:

- Reports from Internal Audit on the effectiveness of internal controls and issues requiring improvement, including reported fraud allegations;
- Observations from external audit on the internal control environment and any specific control issues identified;
- Corporate risk reports summarising key risks in the corporate risk register including mitigating actions, risk trends, and summarising compliance with Scottish Water's risk appetite;
- Reports covering the quantitative and qualitative stress testing of the principal risks facing the Scottish Water group of companies;
- Topical in-depth risk assessments;
- Bi-annual report from the Counter Fraud Group;
- An annual report from the Compliance Officer;
- An annual corporate governance report;
- An Internal Audit annual opinion and report;
- An annual report on regulatory compliance;
- An annual statement of compliance with the Modern Slavery Act 2015; and
- An annual Tax strategy.

During the year the Committee requested specific reports on cyber security and NIS compliance, and capital investment value for money assurance framework.

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The Committee provides the Board with an annual report on the effectiveness of the internal control framework. To support this, the Committee receives an annual report and opinion from the Head of Internal Audit.

Internal Audit

The Committee approves annually the Internal Audit Charter and the annual and 3 year Internal Audit plans, with any subsequent changes requiring Committee approval. It also reviews the scope and results of Internal Audit reviews and its effectiveness throughout the year, including implementation of an annual quality improvement action plan following the external quality assessment by the Institute of Internal Auditors in 2019.

The Committee approved the deferral of the 2024 external quality assessment to 2025 for the implementation of new Global Internal Audit Standards. At each main Committee meeting reports were received from the Head of Internal Audit.

These reports included progress in delivering the Internal Audit plan, audit findings and management action plans to address these, performance in implementing management action plans, fraud allegation investigations and details of relevant Audit Scotland reports. In addition to the private meetings with the Committee members, the Chair of the Audit & Risk Committee also meets the Head of Internal Audit outside of the formal Committee meetings.

External Audit

The Auditor General for Scotland is responsible for the appointment of the Scottish Water external auditor and the auditor's remuneration. The Auditor General undertook a tender and assessment exercise for Scottish Water, and many other public sector organisations, which resulted in the appointment of KPMG as Scottish Water's external auditor for a five-year period from 2022/23 to 2026/27.

The Committee received from KPMG an audit plan, including their assessment of key risks and confirmation of their independence. Following completion of their interim review and annual audit, the Committee receive an internal control report highlighting any internal control weaknesses and the management actions to address these.

Annually the Committee assess, with input from management, and provide feedback to Audit Scotland on the effectiveness of the external auditor.

In addition to the private meetings with the Committee members, the Chair of the Audit & Risk Committee also meets the external audit partner outside of the formal Committee meetings.

Auditor Independence

During 2015/16 the Committee approved a policy on provision of non-audit services to Scottish Water by the firm appointed as external auditor and this was extended to all subsidiaries in 2016/17. The Committee monitors implementation of the policy through receipt of a report every six months, or as required, analysing fees paid for any non-audit work by the external auditor, with additional commentary on assignments and on work carried out or to be done relating to safeguards of independence.

Having considered compliance with our policy, the Committee is satisfied KPMG has remained independent.

Iain M Lanaghan
Chair of the Audit & Risk Committee

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REMUNERATION COMMITTEE REPORT

Annual Statement by the Chair of the Remuneration Committee

I am pleased to present the Members' remuneration report for the year ended 31 March 2025. In preparing the report I am thankful for the support of fellow Remuneration Committee non-executive members Steve Dickson and Ian McAulay.

The Remuneration Committee meets to consider remuneration arrangements for Executive Members, and other related remuneration matters, making recommendations to the Board. Such recommendations must balance the need to deliver value for money in reward, with the ability to operate in a competitive market beyond the public sector, against which the compensation for senior roles is benchmarked.

There were five meetings of the Committee in 2024/25. At each meeting a quorum of independent, Non-executive Members was present. No Executive Member was present during discussions about their own remuneration. As required, the Committee receives internal advice and information from the Chair of Scottish Water, the Chief Executive, the Director for People, and the Group Legal Counsel & Director of Governance.

We maintain and operate a simple remuneration structure of base salary and benefits, an annual out-performance incentive plan (AOIP) and a single long-term incentive plan (LTIP), which provide a clear link between pay and Scottish Water's key strategic priorities.

Key decisions made by the Committee over the 2024/25 period were as follows:

Decisions / remuneration for 2024/25

- Deferring the pay review effective from 1 April 2024 for Executive members, until negotiations over the pay award for other employees are resolved. When conducted, the review will align with the Scottish Government's Public Sector Pay Policy and will be disclosed in the Members' Remuneration Report for 2025/26.
- Confirming the 2024/25 AOIP payment calculated at 35.92% of salary out of the 40% maximum opportunity for the three Executive Members.
- Confirming payment of the daily fee rate for non-Executive Members as set out in the Scottish Government's Public Sector Pay Policy, effective from 1 April 2024.
- Confirming "good leaver" status for the former Director of Finance with regard to AOIP and LTIP participation (the Director of Finance was not an Executive Director).
- Confirming appointment terms for the new Chief Financial Officer from 1 June 2024.
- Noting the Chief Operating Officer's decision to retire flexibly from 1 October 2024 until 30 September 2026.
- Confirming appointment terms for the new Director of Corporate Affairs from 1 December 2024 (the Director of Corporate Affairs is not an Executive Director).
- Noting implementation of a new pay and grading structure for management contract employees from 1 January 2025, following similar changes made for collectively bargained employees in the previous year.

Decisions / remuneration for 2025/26

- Setting the structure and performance criteria for the 2025/26 AOIP.
- Deferring the pay review for Executive members effective 1 April 2025 until a pay award has been agreed for other employees. When conducted, the review will align with the Scottish Government's Public Sector Pay Policy and will be disclosed in the Members' Remuneration Report for 2025/26.
- Deferring the increase in the daily fee rate for non-Executive Members as set out in the Scottish Government's Public Sector Pay Policy, effective from 1 April 2025, until negotiations over the pay award for employees are resolved. When concluded, changes in the daily fee rate will be disclosed in the Members' Remuneration Report for 2025/26.

Our Remuneration Policy and our Annual Report on Remuneration is set out on pages 95 to 107.

Ken Marnoch
Chair of the Remuneration Committee

MEMBERS' REMUNERATION REPORT

The presentation of this Remuneration Report complies with the HM Treasury Financial Reporting Manual 2024/25 (December 2024) and as far as is appropriate, also adopts the same practice as quoted companies even though Scottish Water is not a quoted company.

1. Statement of Executive Remuneration Policy

a. General Policy

Scottish Water's purpose is to support a flourishing Scotland through being trusted to care for the water on which Scotland depends. Building on past success, we seek to provide levels of service, out-performance and efficiency which exceed the expectation of customers, regulators and the Scottish Government.

Scottish Water will continue to provide a working environment that matches the expectations placed on our people to deliver best value outcomes in an empowered organisation. Remuneration and incentivisation policies are a major contributor to achieving Scottish Water's goals. This requires terms of employment for all employees that, taken together, ensure the organisation is perceived as a fair employer that encourages excellence, rewards performance and empowers its people while providing scope for personal development.

The overall remuneration policy aims are to:

- Attract, develop, motivate and retain talent and capability at all levels of the organisation; and
- Incentivise and reward good individual and corporate performance as well as out-performance.

b. Remuneration elements

The Remuneration Policy for Executive Members consists of five principal elements:

- Base salary;
- Annual out-performance incentive plan (AOIP);
- Long term incentive plan (LTIP);
- Pension; and
- Allowances (for business needs, car, relocation, etc.).

c. Relative importance of performance incentives

Scottish Water is a performance-driven business, where Executive Members' remuneration should be closely linked to corporate performance and out-performance. The aim is to pay a base salary that is competitive, but appropriate for a public corporation. Incentive pay is earned for exceeding demanding targets, with the required degree of out-performance reviewed on an annual basis.

d. Base Salary

Scottish Water is publicly owned and accountable to the Scottish Parliament and Scottish Ministers. Within the context of public sector ownership, the company seeks to attract, retain and motivate leadership talent in competition with private sector utilities and other organisations across the UK economy, as well as with employers in the public sector.

Scottish Water subscribes to the remuneration database of Korn Ferry and uses this as required to review the remuneration of comparator organisations and industry in general against its own. This is one of the largest remuneration databases in the UK with each job subjected to the same method of job sizing.

Specific benchmark analysis is carried out approximately every three years. The most recent review was in March 2025, where the Remuneration Committee commissioned Korn Ferry to refresh this market analysis against other UK water companies and comparable UK PLCs with roles of equivalent scale. Results showed that Executive Members' base salaries ranged between 47% and 77% of industry medians, with the overall average position being 61%.

This is a continuing deterioration from the previous two comparative positions calculated (70% of median in November 2018; 67% of median in January 2022). This is an ongoing and increasing concern and so we continue to discuss with the Scottish Government steps we can take to ensure we can attract and retain the skills we need, while delivering on the pay expectations of a responsible public sector employer.

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e. Annual Out-performance Incentive Plan

The Remuneration Committee maintains the right to withhold or vary AOIP payments (potentially to zero) should events undermine the financial stability or reputation of Scottish Water. Such variation may be carried out at any time prior to AOIP payments being made and may affect all or only some of the AOIP recipients. During 2024/25 there was no requirement to exercise these step-in rights.

The potential maximum annual incentive attainable for out-performance by Executive Members is 40% of base salary and is non-pensionable. Targets, out-performance targets, and actual performance in 2024/25 are set out below.

Performance assessment is based on the incentive framework for employees at all levels, agreed by the Scottish Government in December 2020, aligned to our strategic plan. Performance focusses on our three strategic Ambitions of Great Value & Financial Stability; Service Excellence; and Net Zero Emissions.

Strategic Outcome	Measure	Target	Weight	Performance
Great Value & Financial Sustainability	Tier 1 costs[40,41]	• % on achieving the Final Determination cost base and 100% for £30m below Final Determination	20%	£43.6m below Final Determination
	Indicator of Progress of Overall Delivery	• Zero > 3 months either side of plan • 50% +/- 3 months of plan • 75% +/- 2 months of plan • 100% +/- 1 month of plan	8%	+0.6 months to plan
	IFAC (Indicator of Forecast Accuracy at Commitment)	• Zero > 5% either side of forecast cost at commitment • 50% +/- 5% of forecast cost at commitment • 100% +/- 0% of forecast cost at commitment	6%	99.4% commitment accuracy
Service Excellence	Outcome Performance Assessment (OPA)[42]	• Zero below 395 points • 50% at 395 points • 100% at 410 points	20%	416 points
	Household Customer Experience Measure (hCEM)	• Zero below 85.0 points • 50% at 85.0 points • 100% at 87.8 points	5%	87.3 points
	Non household Customer Experience Measure (nhCEM)	• Zero below 86.0 points • 50% at 86.0 points • 100% at 90.0 points	5%	89.3 points
	Developer Customer Experience (dCEM)[43]	• Zero below 78.3 points • 50% at 78.3 points • 100% at 80.5 points	3%	82.9 points
Net Zero	Operational emissions routemap delivered successfully and achieving emissions reductions	• Zero below 36,000 tCO_2e • 50% at 36,000 tCO_2e • 100% at 42,000 tCO_2e	33%	38,615 tCO_2e reduction

Notes:

[40] Tier 1 costs to be sufficiently lower than the Final Determination (updated for out-turn inflation) to fund AOIP payments; and Progress to the Committed List (PCL) to be equal to or greater than 97.5%. If either Gateway is not achieved, no AOIP is payable to any employee group.

[41] Operating costs, PFI and interest relative to WICS Final Determination expectations, (as adjusted by out-tun inflation), excluding responsive repair and refurbishment, developer contributions and tax.

[42] The Total Drinking Water Quality calculation within OPA measures was updated during the year in consultation with the Drinking Water Quality Regulator and Water Industry Commission for Scotland. The new method did not increase the OPA points achieved.

[43] The dCEM calculation was updated during the year and the performance target zone was increased from the original, which was 76.5 – 78.7 points. The higher target zone was out-performed.

The awards generated by this performance are noted in the single figure table of the Members' Remuneration Report.

Non-executive Members are not eligible for annual incentive payments.

f. Long Term Incentive Plan to incentivise out-performance

The LTIP structure addresses two key elements:

1. Our Strategic Outcome of Beyond Net Zero Emissions stretches across multiple regulatory contracts and so the LTIP must reflect that longer-term commitment.
2. Since first application of an LTIP scheme in 2006-10, the per-year equivalent payment potential reduced steadily for participants, as plan and regulatory period durations lengthened. The SR21 scheme restores the annual equivalent value and thus the overall retention effect of the reward package, in alignment with the earlier stated aims of our Executive Remuneration Policy.

Duration & Potential Value

Scottish Water's LTIP operates through a Performance period (during which the incentive is assessed by reference to the performance criteria); and a Vesting period (during which the amount identified in the performance period is held for payment at the end of vesting).

Each of these periods lasts three years and allows the LTIP to reflect the rolling nature of truly long-term performance measures, such as Net Zero Emissions. The Vesting period allows Remuneration Committee to verify that payments earned over a three-year Performance period are not based on short-term decisions, which later prove unsupportive of long-term performance. This allows the Remuneration Committee, if necessary, to intervene and moderate the level of incentives actually paid out.

Year	2021	2024	2027	2030	2033	2036
Performance Period	LTIP1 start	LTIP1 end; LTIP2 start	LTIP2 end; LTIP3 start	LTIP3 end; LTIP4 start	LTIP4 end; LTIP5 start	LTIP5 end; etc
Vesting Period		LTIP1 start	LTIP1 end; LTIP2 start	LTIP2 end; LTIP3 start	LTIP3 end; LTIP4 start	LTIP4 end; etc.
Payment			LTIP1	LTIP2	LTIP3	LTIP4
New maximum quantum (Directors). See below.			45% of salary	45% of salary	45% of salary	45% of salary

The first payment for this new LTIP is potentially made after six years in 2027, with a value of up to 45% of a participant's salary. Further payments of 45% are possible every three years thereafter.

The degree to which the LTIP is payable considers stakeholder feedback on transformation progress. This not only links long-term incentives clearly to Scottish Water's business transformation but provides a credibility check to maintain the integrity of the overall LTIP mechanism. Remuneration Committee will make a holistic assessment of stakeholder sentiment, and over the long term it will be important for all stakeholders to verify that our progress warrants LTIP payments, while incentivising the continuing delivery of our strategic transformation.

In addition to the above checks, the Remuneration Committee maintains the right to withhold or vary LTIP payments (potentially to zero) should events undermine the financial stability or reputation of Scottish Water. Such variation may be carried out at any time prior to LTIP payments being made and may affect all or only some of the LTIP recipients.

LTIP payments generated during 2021-24 and held for payment in 2027, were disclosed in our Members' Remuneration Report 2023/24.

Non-executive Members are not eligible for long-term incentive payments.

g. Pension

All employees, including Executive Members, are eligible to participate in the Scottish Local Government Pension Scheme (SLGPS) which is a contributory, defined benefit scheme operating under regulations determined by the Scottish Parliament. These regulations require Scottish Water to offer this pension to all employees and in the case of the Executive Members participation is via the Lothian Pension Fund and Strathclyde Pension Fund. All pension scheme members may request flexible retirement from age 55, reducing their hours or grade to receive all or part of their pension while continuing to work. All members may also choose to take full Early Retirement from age 55 with a reduction in pension value applied by the pension fund.

The value of pension provided through the SLGPS is set out in section 2.c of the Members' Remuneration Report.

Non-executive Members are not eligible to receive pension benefits.

h. Benefits

A car is provided to all Executive Members for business needs. For those opting out of car provision, a car allowance is payable instead. Non-executive members are not eligible for a car or car allowance.

Executive Members are covered by the Scottish Water Life Assurance Scheme that covers all employees.

The value of benefits received is set out in the relevant column of the single figure table in the Members' Remuneration Report.

i. Approach to recruitment remuneration

The remuneration of any new Executive Member will be agreed with the Scottish Government prior to appointment of that Member. The Remuneration Committee will recommend a recruitment package, encompassing those elements that apply to other Executive Members and that are detailed elsewhere in this remuneration policy. Recent experience has demonstrated that recruitment of new Executive Members remains extremely challenging at current levels of available reward.

If recruitment of an Executive Member requires compensation for relocation this would normally be calculated as per Scottish Water's relocation policies and would be included in any recommendation made, as would any other aspect of proposed remuneration.

The appointment and remuneration of the Chair of Scottish Water and Non-executive Members is agreed by Scottish Ministers, with regard to the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments. Fees paid reflect the time commitment anticipated for each role and are detailed in the Members' Remuneration Report.

j. Payments on loss of office

Executive Members are expected to work the notice periods in their service contracts. In circumstances where it is in the operational interests of Scottish Water for an Executive Member to leave before the end of their notice period, the Remuneration Committee will consider options such as 'garden leave' or paying in lieu for all or part notice on a case-by-case basis.

The Remuneration Committee may decide that a portion of the incentive payment is payable to former Executive Members in certain "good leaver" circumstances, including departure due to redundancy and efficiency, ill-health or normal age retirement, agreed early retirement, retirement or departure with substantial notice and responsibility transition, or death in service. Any incentive payment so determined will be paid no earlier than would have been the case had the Member not left Scottish Water.

If an Executive Member leaves the employment of Scottish Water for any other reason and before incentive payments under the AOIP or LTIP would be due, their payment will normally be forfeit.

Where an Executive Member leaves for reasons of efficiency or redundancy, any severance payment that may apply will be on the same terms as for any other employee leaving under such circumstances and will be as set out under the approved redundancy scheme in operation at the time. Where the Executive Member is a member of the SLGPS then access to pension benefits on leaving will be determined by the regulations of that pension scheme, as for any other SLGPS member.

No compensation is payable to any Non-executive Member if their appointment is terminated early.

k. Consideration of employment conditions elsewhere in the company

The Remuneration Committee requests and receives information as required on pay and terms and conditions for all employees in order to provide context for decisions on executive pay. This information includes comparison of the salary and total pay of the Chief Executive versus that received by other employees; as well as consideration of the ratio between the lowest and highest potential total pay in the organisation.

Remuneration Committee considers information within Scottish Water's biennial Public Sector Equality Duties (PSED) report, available through our website. Alongside detailed information on our approach to diversity, equity and inclusion, this report, most recently updated in April 2025, sets out our gender pay gap. In 2024, whilst the median gender pay gap for full-time employees in Scotland as a whole was 2.2 per cent, Scottish Water's median hourly pay for women was the same as men's. At Scottish Water, the mean hourly pay gap was in favour of women.

When determining incentive payments to be made under the AOIP, the Remuneration Committee considers the proportion of potential payment resulting to Executive Members from corporate out-performance and how that same out-performance drives incentive payments to other employees. Any review of executive pay is informed by reports on employee and manager pay progression, consideration of public sector pay policy and an understanding of the pay adjustment opportunities available to other employees as may be negotiated with the company's recognised trades unions.

Under the Water Industry (Scotland) Act 2002, Schedule 3, one of the non-executive members appointed to the Board of Scottish Water must be a person appearing to the Scottish Ministers to have special knowledge of the interests of employees. A non-executive fulfilling this requirement was appointed to The Board and The Remuneration Committee from 1st May 2021, replacing the previous non-executive with such special knowledge.

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l. Service contracts

Details of current Executive Members' permanent contracts are set out below.

Executive Member	Name	Date of Contract
Chief Executive	Alex Plant	1 June 2023
Chief Operating Officer	Peter Farrer	1 April 2013
Chief Financial Officer	Alan Dingwall	1 June 2024

Executive Members are required to give 6 months' notice of resignation. Scottish Water is required to give Members 12 months' notice of termination.

Non-executive Members
Non-executive Members do not have service contracts. Expiry dates of current Non-executive appointments are as follows:as follows:

Deirdre Michie, Chair	31 December 2027
Iain Lanaghan	30 September 2025
Steven Dickson	30 April 2025
Catriona Schmolke	31 October 2025
Graham Dalton	31 March 2026
Kenneth Marnoch	31 March 2026
Ian McAulay	31 December 2027
Allan Clow	31 January 2029

All Non-executive appointments, extensions or re-appointments are made by the Scottish Government.

Iain Lanaghan's appointment has been extended for six months beyond his original end date, until 30 September 2025.

Allan Clow was appointed as a Non-executive Board member from 1 February 2025 for a period of four years until 31 January 2029.

Belinda Howell will take up an appointment as Non-executive Board member from 1 September 2025 for a period of four years until 31 August 2029.

2. Members' Remuneration Report

The auditors are required to report on information contained in sections 2.a to 2.d of the Remuneration Report.

a. Single Total Figure Table

Executive Members		Salary/ Fees £000	Benefits[44] £000	AOIP[45] £000	Total £000	Pension[46] £000	Total £000
Alex Plant[47]	2025	295	29	106	430	93	523
	2024	246	83	87	416	67	483
Peter Farrer[48]	2025	185	11	67	263	49	312
	2024	206	11	73	290	(91)	199
Alan Dingwall[49]	2025	175	3	63	241	52	293
	2024	-	-	-	-	-	-
Non-executive Members[50]							
Chair Deirdre Michie[51]	2025	106			106		106
	2024	47			47		47
Iain M Lanaghan	2025	28			28		28
	2024	28			28		28
Kenneth Marnoch[52]	2025	28			28		28
	2024	23			23		23
Ian McAulay[53]	2025	22			22		22
	2024	6			6		6
Graham Dalton	2025	22			22		22
	2024	22			22		22
Steven Dickson	2025	22			22		22
	2024	22			22		22
Catriona Schmolke	2025	22			22		22
	2024	22			22		22
Allan Clow[54]	2025	4			4		4
	2024	-			-		-
Former Members							
Douglas Millican[55]	2024	40	2	13	55	-	55
Alan Scott[56]	2024	151	6	54	211	(51)	160
Dame Susan Rice[57]	2024	79			79		79
Total Remuneration	**2025**	**909**	**43**	**236**	**1,188**	**194**	**1,382**
	2024	892	102	227	1,221	(75)	1,146

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Notes:
44 Benefits include the value of car benefit or car allowance and annual life assurance premiums associated with the Scottish Water Life Assurance Scheme as described in the Executive Remuneration policy. The value of each benefit is described in a separate table below. In 2024 and 2025 benefits also include payments made to Mr Plant in relation to his relocation to Scotland to take up the post of Chief Executive.
45 Annual Out-performance Incentive Plan as described in the Executive Remuneration Policy.
46 The value of pension benefits accrued is calculated in accordance with section 6.5.8 (d) of the HM Treasury's Government Financial Reporting Manual 2024/25. This requires the "real" increase in accrued benefits, as detailed in section 2c below, to be multiplied by 20, plus the "real" increase in any accrued lump sum and reduced by the contribution made by the individual member.
47 Figures for Mr Plant for 2024 reflect his time in post as Chief Executive from 1 June 2023.
48 Peter Farrer commenced flexible retirement on 1 October 2024 with a reduction in salary and opted to rejoin the pension scheme and continue to accrue pension benefits, a choice open to all employees who take flexible retirement. The real increase in accrued benefits above is in relation to service to the date of flexible retirement, and service as a new member of the pension scheme.
49 Figures for Mr Dingwall reflect his time in post as Chief Financial Officer from 1 June 2024.
50 Annual fees are set on appointment and then adjusted with regard to the daily fee framework of the Scottish Government's Pay Policy for Senior Appointments and the time commitment indicated within appointment terms. In addition to preparation and attendance at Board and Committee meetings, non-executive members are flexible in the hours they work and, in their availability, to provide experienced, high value advice and guidance to Scottish Water.
51 Deirdre Michie was appointed Chair with effect from 1 January 2024, prior to which she was Remuneration Committee Chair from 1 April 2023 until 31 December 2023.
52 Kenneth Marnoch was appointed Remuneration Committee Chair with effect from 1 January 2024.
53 Ian McAulay was appointed to the Board with effect from 1 January 2024.
54 Allan Clow was appointed to the Board with effect from 1 February 2025.
55 Figures for Mr Millican for 2024 reflect his time in post as Chief Executive until retirement on 31 May 2023, and his flexible retirement from 1 October 2022 after which he opted to accrue no further pension benefits.
56 Figures for Mr Scott for 2024 reflect his time in post as Strategy Director until retirement on 31 December 2023.
57 Dame Susan Rice stepped down from the Board with effect from 31 December 2023 at the end of her appointment term.

a. Single Total Figure Table (continued)

As noted in the Remuneration Committee Chair's statement, decisions on salary reviews for Executive members for 2024/25 and 2025/26 have been deferred pending the outcome of ongoing negotiations on employee pay. A decision on increasing non-Executive daily fee rates in line with Public Sector Pay policy for 2025/26 has also been deferred. Any increases for Executive or non-Executive Members, once determined, will be backdated to the appropriate effective dates and will be disclosed in the 2025/26 Members' Remuneration Report.

b. Details of benefits received 2024/25

Name	Car benefit or car allowance £000	Life assurance premium £000	Relocation[58] £000	Total £000
Alex Plant	10	2	17	29
Peter Farrer	10	1		11
Alan Dingwall	2	1		3

Notes:
58 As part of his appointment terms, Mr Plant was eligible for relocation assistance up to £30k and £2k of this was used in 2023/24 to help secure an immediate temporary residence with a further payment of £11k in 2024/25. Mr Plant also received the remainder of his accommodation allowance of £6k in 2024/25. Mr Plant is subject to income tax on these payments in line with HMRC guidelines.

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c. Total pension entitlements to end of financial year

The Executive Members Mr Plant and Mr Farrer are eligible to participate in the Lothian Pension Fund, and Mr Dingwall is eligible to participate in the Strathclyde Pension Fund. Both are defined benefit schemes. The table below presents pension accruals under the regulations of the SLGPS.

	Increase in accrued benefits during the year net of inflation			Accumulated total accrued benefits at 31 March 2025[62]		Transfer Values[63]		
Name	Years in Scheme	Pension £000	Lump sum £000	Pension £000	Lump sum £000	At 31 March 2025 £000	At 31 March 2024 £000	Increase in 2024/25 net of Members' own contributions and inflation £000
Alex Plant[59]	1.8	6	-	11	-	140	75	31
Peter Farrer[60]	40.7	4	(3)	115	190	2,434	2,391	(18)
Alan Dingwall[61]	0.8	4	-	4	-	51	-	32

Notes
59 Entitlement to the accrued pension of £11k is dependent on Mr Plant completing two years continuous service from his start date of 1 June 2023.
60 Mr Farrer commenced flexible retirement from 1 October 2024, drawing his pension accrued to that date. He rejoined the pension scheme, an option open to all employees who flexibly retire. All figures shown for Mr Farrer are calculated on his date of flexible retiral in addition to the service to March 2025
61 All figures for Mr Dingwall are calculated from his start date of 1 June 2024 and entitlement to the accrued pension of £4k is dependent on him completing two years continuous service.
62 The pension entitlement shown is that which would be paid annually on retirement along with the lump sum, based on service to the end of the year.
63 The transfer value of accrued pension is calculated in a manner consistent with Actuarial Guidance Note GN11.
64 The normal retirement age of Executive Members is determined by the rules of the Scottish Local Government Pension Scheme. For pension accrued up to 31 March 2015 this is age 65. For pension benefits accrued after that date, normal retirement age is set equal to the individual's state pension age. Any pension benefits drawn before normal retirement age are usually reduced in value by actuarial factors reflecting the anticipated longer payment period.
65 Members of the pension scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

d. Pay multiples

The table below shows how the Chief Executive's change in remuneration value compares to the average percentage change in remuneration value of the wider workforce from 2023/24 to 2024/25.

	Salary	Benefits	AOIP[69]
Chief Executive[66]	1.5%	0.0%[68]	3.1%
All employee median[67]	3.6%	0.0%	7.7%

Notes:
66 Change in the Chief Executive salary is a comparison of the full year salary of Mr Plant for 2024/25 with the combined part-year, full time equivalent salaries paid in 2023/24 for the two individuals who held that role.
67 Change in employee salary is calculated as the change in the median paid from one year to the next.
68 Calculation of the change in Chief Executive benefits does not include the one-off relocation, accommodation and LBTT assistance described in the notes to the table in 2(b) above.
69 Chief Executive and Employee AOIP are driven by the same corporate out-performance, but the employee payment has a fixed maximum value, while the Chief Executive maximum is a percentage of salary and thus is affected by the Full Time Equivalent change in salary for the role holder.

The Government Financial Reporting Manual sets out the method of pay multiple comparison to be used from 2021/22 onwards, so that the Chief Executive total pay figure is compared to that received by other employees at the 25th, 50th and 75th percentile of earnings. Scottish Water reported on mean pay ratios prior to 2019/20, but in that year switched to using the percentile approach and recalculated 2018/19 in the same way, to allow comparison.

Pay for executives and for all other employees is managed with reference to the Public Sector Pay Policy issued each year. The resultant median ratio of earnings of the Chief Executive to other employees is consistent with this approach.

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Remuneration ratio calculations, excluding movement in pension and LTIP[70] £000

	2024/25[71]	2023/24[71]	2022/23[72]	2021/22[73]	2020/21	2019/20[74]	2018/19
Chief Executive earnings	413	410	362	360	371	375	367
Employees[75]							
Salary 25th percentile	32.4	30.7	28.4	27.2	26.3	-	-
25th percentile earnings	33.5	31.7	29.4	28.1	27.2	26.5	25.8
Salary 50th percentile	37.5	36.2	33.3	31.6	30.7	-	-
50th percentile earnings	38.7	37.1	34.3	32.7	31.7	30.7	29.9
Salary 75th percentile	46.9	46.4	42.6	40.5	39.3	-	-
75th percentile earnings	48.1	47.5	44.9	42.6	40.6	39.5	38.7
Ratio at 25th percentile earnings	12.3	12.9	12.3	12.8	13.6	14.2	14.2
Ratio at 50th percentile earnings	10.7	11.1	10.6	11.0	11.7	12.2	12.3
Ratio at 75th percentile earnings	8.6	8.6	8.1	8.5	9.1	9.5	9.5

Notes:
[70] The total excludes the calculation of change in pension as the value relies heavily on length of pensionable service and so has little meaning when comparing one person (the Chief Executive) against a group of employees with varying lengths of service, i.e., an individual with greater pensionable service could see a faster increase in calculated pension value than someone with shorter pensionable service, even if they are paid the same during a financial year.
[71] For fair comparison, the Chief Executive earnings figure for 2023/24 is a pro-rata combination of the Full Time Equivalent earnings of the two individuals who each held that post during the period. The Chief Executive earnings figures in 2023/24 and 2024/25 do not include the one-off relocation, accommodation and LBTT assistance described in the notes to the table in 2(b) above.
[72] The Chief Executive Figure for 2022/23 is not actual earnings but uses the full time equivalent salary on 31st March 2023 of £272,499 as if salary had not reduced for flexible retirement in October 2022.
[73] To allow like-for-like comparison, the Chief Executive figure for 2021/22 uses the total for that year before inclusion of the LTIP payment, which was earned for the out-performance achieved over the six year period covering 2015 to 2021 and is not an annual amount. The LTIP payment and the pay ratios including that amount were disclosed in the 2021/22 report.
[74] The figure for the Chief Executive in 2019/20 uses the single total figure in the table at 2(a) that year, excluding pension, as per note (i), but including the value of waived AOIP in that year of £96k.
[75] Employee percentile earnings shown are for full time equivalent salary, benefits and AOIP earned in the reporting year for those with a full year of service, other than Executive Members.

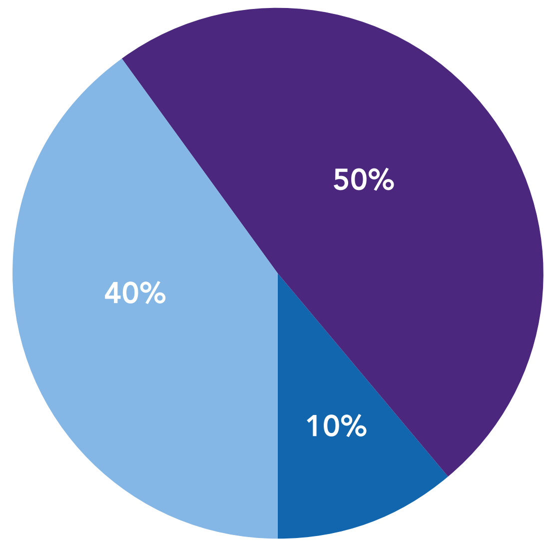
The earned remuneration for the post of Chief Executive in the financial year 2024/25 was £413k (2023/24: £410k). This was 10.7 times (2023/24: 11.1) the median remuneration of other employees, which was £38.7k (2023/24: £37.1k).

The change in ratio is affected by two key factors: the CEO has not yet received a pay award for 2024/25 while employee salaries have risen; and the earned annual incentive payment for all employees, aligned with out-performance against corporate targets, increased from one year to the next. The full range of full time equivalent annual earnings was from £24.4k to £413k (2023/24: £23.3k to £410k). The remuneration range increased slightly due to the same factors described above.

ANNUAL REPORT & ACCOUNTS 2024/25 PERFORMANCE AND PROSPECTS

e. Relative importance of spend on pay

The importance of total annual spend on pay is shown in relation to other Operating costs and Capital investment during the year. As Scottish Water is a public sector organisation owned by the Scottish Government, there were no disbursements to shareholders.



Total employee pay
Operating costs (excl. total pay)
Capital investment on a regulatory accounting basis

f. Implementation of Remuneration Policy in 2024/25

Scottish Water operates an Annual Out-performance Incentive Plan (AOIP) designed to incentivise and reward the outperformance of business targets agreed with regulators. To ensure suitable challenge, the required out-performance has been increased consistently each year. For the 2021/27 regulatory period and beyond, the Remuneration Committee has agreed an overall incentive framework with Scottish Ministers, within which targets are set each year. For 2025/26 the AOIP outperformance targets are as follows.

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Strategic Outcome	Weight	Measure	Weight	Target Type
Great Value & Financial Sustainability	34%	Tier 1 costs (before LTNC items) (relative to Final Determination updated for inflation)	20%	Target Zone of zero to £30m lower than Final Determination
		IPOD (Indicator of Progress of Delivery)	8%	Tramline +/-3 months to within +/-1 month
		IFAC (Indicator of Forecast Accuracy at Commitment)	6%	Tramline +/- 5% i.e. 95% or 105%, to +/-1.7% i.e. 98.3% to 101.7%
Service Excellence	33%	Outcome Performance Assessment (OPA)	20%	Target Zone 397 to 412 points
		Household Customer Experience Measure (hCEM)	5%	Target Zone 85.0 to 87.8 points
		Non household Customer Experience Measure (nhCEM)	5%	Target Zone 86.0 to 90.0 points
		Developer Customer Experience (dCEM)	3%	Target Zone 79.9 to 82.9 points
Net Zero	33%	Operational emissions routemap reductions	33%	Target Zone 41,000 – 48,000 tCO2e reduction cumulative in SR21

Notes:
[76]Financial surplus is a gateway on the incentive plan and must be sufficient to fund AOIP payments; costs' target plan baseline will be updated for inflation and regulatory out-turn assumptions. A separate measure of Progress to the Committed list is also an AOIP payment gateway and must equal or exceed 97.5%.
[77] Operating costs, PFI and interest, relative to WICS Final Determination expectations, excluding responsive repair and refurbishment, developer contributions and tax, as adjusted by out-turn inflation.
[78] Target Zone measures: payout is half the possible maximum at the bottom of the zone, with a straight line increase to full payout if the top of the zone is achieved or exceeded. Below the bottom of the zone there is zero payout of that measure.
[79] Tramline measures: payout if half of the possible maximum if the higher or lower limit is achieved, with a straight line increase to full payout if achievement is within the middle third of the tramlines. Outside of the tramlines there is zero payout of that measure.

ANNUAL REPORT & ACCOUNTS 2024/25 PERFORMANCE AND PROSPECTS

The Executive Remuneration Policy includes operation of a Long Term Incentive Plan (LTIP), with performance periods for 2021-24 and for 2024-27. LTIP earned for 2021-24 is described in section 1(f) above.

Targets for the performance period 2024-27 are set out below and if earned, would be vested to become payable in 2030.

Gateways
• Tier 1 costs[79] to be sufficiently lower than the Final Determination to fund LTIP payments; and • Progress to the Committed List (PCL) to be equal to or greater than 97.5%. • Transformation plan has delivered on planned activities for the performance period. Assessment informed by stakeholder views on the extent of progress being made to transform Scottish Water. Yes/Partial/No decision by Remuneration Committee on the extent of LTIP payable.

Ambition	Weight	Measure	Basis
Great Value & Financial Sustainability	34%	Tier 1 costs (before LTNC items)[80]	Sliding scale of £0 million to £100 million outperformance over 2024-27 period
Service Excellence	33%	Outcome Performance Assessment (OPA)	Sliding scale of performance in target zones over 2024-27 period (50% for achieving bottom of the target zones, 100% for top)[81]
Net Zero	33%	Operational emissions routemap reductions	Sliding scale from 45,000 tCO_2e reduction to 60,000 tCO_2e reduction[82]

Notes:
[80] Operating costs, PFI and interest relative to WICS Final Determination expectations, (as adjusted by out-turn inflation), excluding responsive repair and refurbishment, developer contributions and tax.
[81] Current OPA target zone is 395 to 410 points, although this can be adjusted annually. Therefore, performance across 2024-27 is an aggregate against the target zones defined for each year.
[82] tCO_2e reduction is cumulative for the SR21 period. 60,000 tCO_2e reduction is more than double the achievement in 2021-24 and is a stretch target on top of Scottish Water's Net Zero Routemap.

g. Executive Members' Directorships of other companies

The Remuneration Committee supports active development of Executive Members including their involvement with other companies and public bodies where this is compatible with fulfilling their responsibilities to Scottish Water. In line with this policy, Mr Farrer holds the position of Chair of the Scottish Apprenticeship Advisory Board (SAAB) from which no remuneration was paid. Mr Plant and Mr Dingwall do not hold any other Director appointments.

This report was approved by the Board and signed on its behalf by:

Kenneth Marnoch
Chair of the Remuneration Committee
25 June 2025

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MEMBERS' REPORT

The Members present the Members' report together with the audited consolidated financial statements for the year ended 31 March 2025.

The Government Financial Reporting Manual 2024/25 (FReM), published by HM Treasury, sets out the form and content for the Annual Report & Accounts 2024/25: Performance and Prospects. This includes the requirements to show a Performance Report and Accountability Report. The Members have reviewed the requirements of the FReM and are satisfied that they are covered within the Overview, Strategic and Governance sections of this report.

The Members' report comprises pages 108 to 109 and the sections of this report incorporated by reference are as follows:

Corporate governance report	See pages 86 to 89
Strategic report, including information in respect of: Scottish Water's results, key financial information and service performance, future developments and the principal risks and uncertainties faced by Scottish Water's group of companies	See pages 14 to 82
Going concern and viability statements	See pages 82
Reducing emissions	See pages 36 to 41
People	See pages 45 to 47
Accounting requirements and basis of account preparation	See Note 1.2, page 118
Financial risk management	See pages 153 to 155

Members and their interests

All Members have declared that they had no material interests in any contracts awarded during the year by Scottish Water. A register of Members' interests is maintained on Scottish Water's website and can be accessed via the **link**.

Appointment and Replacement of Members

Schedule 3 of the Water Industry (Scotland) Act 2002 specifies Scottish Water's Board must comprise between 5 and 8 Non-Executive Members and between 3 and 5 Executive Members. One Member must have special knowledge of the interests of the employees of Scottish Water. Non-Executive appointments are made by the Scottish Ministers for 4 to 8 years following an open and transparent public appointment process. Executive Members are appointed by Scottish Water with the consent of the Scottish Ministers for an undefined period. The Members' appointments can be terminated under procedures set out in Paragraph 1 of Schedule 3 of the Water Industry (Scotland) Act 2002. Details of the Members' service contracts are on page 100 of the Members' Remuneration Report.

On 31 March 2025 the Cabinet Secretary and Ethical Standards Commissioner approved a six-month extension of Iain Lanaghan's appointment to 30 September 2025, beyond the 8 year maximum term specified in Schedule 3 to the Water Industry (Scotland) Act 2002.

Employee relations and involvement

The Scottish Water group of businesses employed an average of 4,934 (2024: 4,750) people during the year. Details of the costs incurred in relation to these employees can be found in note 5 to the financial statements on page 127. Scottish Water is committed to ensuring equality is mainstreamed into all aspects of organisational culture and practice, and all employees have equal opportunities irrespective of race, religion, sex, sexual orientation, disability or age. A number of forums are used to encourage employee involvement. Employees are kept involved through a process of regular team meetings, employee newsletters and representation on consultative forums.

Scottish Water is committed to continually improving its performance in relation to safety, health and wellbeing. Through an extensive safety awareness campaign, safety briefings and ongoing training; awareness of safety, health and wellbeing issues is being encouraged and increased among employees.

Further information can be found in the **People section**.

Research and development

To ensure that Scottish Water derives benefit from the most up-to-date research being undertaken within the industry, research expenditure is targeted towards collaborative research with other water operators and regulators within the UK. This ensures that access is gained to high value, widely based research programmes in the Environmental, Quality, Engineering, Operational and Regulatory fields. Research into issues common to the UK water industry is procured through membership of the UK Water Industry Research (UKWIR) and The Foundation for Water Research. In addition, Scottish Water Horizons has developed and operates specialist innovation development centres at Gorthleck and Bo'ness to test new products and processes associated with the treatment of drinking water and waste water.

Further information can be found in the **Enabling Sustainable and Inclusive Growth** section.

Political contributions

No political contributions were made during the year (2024: nil).

Public Services Reform (Scotland) Act 2010

Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 impose new duties on the Scottish Government and listed public bodies to publish information on expenditure and certain other matters as soon as is reasonably practicable after the end of each financial year.

In accordance with the Public Services Reform (Scotland) Act 2010, Scottish Water will publish the full information as required by the act on the **Scottish Water website** following the approval of the Scottish Water Annual Report & Accounts 2024/25: Performance and Prospects. The report for this financial year will be available later in 2025.

Members' responsibilities

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities included in the Independent Auditor's Report on pages 110 to 113, is made with a view to distinguishing the respective responsibilities of the Members and of the auditor in relation to the financial statements.

The Members are required by the Water Industry (Scotland) Act 2002 and directions made thereunder to prepare financial statements for each financial year which give a true and fair view of the state of affairs of Scottish Water and of its income and expenditure for that period. In preparing those financial statements, the Members are required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. ensure appropriate internal controls are in place to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
4. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
5. prepare the financial statements on a going concern basis unless it is inappropriate to do so.

The Members are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of Scottish Water and to enable them to ensure that the financial statements comply with statute and any financial reporting requirements. They are also responsible for taking reasonable steps to safeguard the assets of the business and to prevent and detect fraud and other irregularities.

The Members are responsible for the maintenance and integrity of Scottish Water's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Members, as at the date of this report, consider that the Annual Report & Accounts 2024/25: Performance and Prospects taken as a whole is fair, balanced and understandable and provides the information necessary to assess Scottish Water's performance, business model and strategy.

Each of the Members, whose names and functions are listed in the Board Members section on pages 83 to 85, confirms that to the best of their knowledge and belief:

1. the Group and Company financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the UK using the cost model for property, plant and equipment, and where otherwise appropriate, as interpreted and adapted by the Government Financial Reporting Manual (FReM), give a true and fair view of the assets, liabilities, financial position and surplus of Scottish Water;
2. the Strategic Report includes a fair review of the development and performance of the business and the position of Scottish Water, together with a description of the principal risks and uncertainties that it faces.

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

1. so far as the Member is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. each Member has taken all the steps that they ought to have taken as a Member in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board,

Alex Plant,
Chief Executive
25 June 2025

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Scottish Water, the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Scottish Water ("the Company") for the year ended 31 March 2025 under the Water Industry (Scotland) Act 2002. The financial statements comprise the Group and Company Statements of Financial Position, the Group and Company Income Statements, the Group and Company Statements of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Group and Company Statements of Cash Flow and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2024/25 Government Financial Reporting Manual ("the 2024/25 FReM").

In our opinion the accompanying financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 March 2025 and of the Group's and Company's surplus for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2024/25 FReM; and
- have been prepared in accordance with the requirements of the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. 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 were appointed by the Auditor General on 18 May 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. Including a previous appointment, the period of total uninterrupted appointment will be 11 years. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Group and Company. 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 basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 Group and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the Group and Company's current or future financial sustainability. However, we report on the Company's arrangements for financial sustainability in a separate Annual Audit Report available from the **Audit Scotland website**.

Risks of material misstatement

We report in our separate Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Responsibilities of the Accountable Officer and Board Members for the financial statements

As explained more fully in the Members' Responsibilities statement, the Accountable Officer and the Board Members are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer and Board Members 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 Accountable Officer and Board Members are responsible for assessing the Group and Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

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 decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the central government sector to identify that the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers are significant in the context of the Group and Company;
- inquiring of the Accountable Officer and legal officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the Group and Company;
- inquiring of the Accountable Officer and legal officer concerning the Company's and Group's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Company's and Group's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

Reporting on regularity of expenditure and income

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Accountable Officer and Board Members are responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the reporting on the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Members' Remuneration Report

We have audited the parts of the Members' Remuneration Report described as audited. In our opinion, the audited parts of the Members' Remuneration Report have been properly prepared in accordance with the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers.

Other information

The Accountable Officer and Board Members are responsible for the other information in the annual report and accounts. The other information comprises the Overview, Strategic Report, Governance Report and the unaudited parts of the Members' Remuneration Report.

Our responsibility is to read all 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance and Prospects sections on pages 14 to 82 within the Strategic Report and the Corporate Governance Report to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance and Prospects and Corporate Governance Report

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

- the information given in the Performance and Prospects sections on pages 14 to 82 within the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those sections have been prepared in accordance with the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers; and
- the information given in the Corporate Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Water Industry (Scotland) Act 2002 and directions made thereunder by the Scottish Ministers.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Members' Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT CONTINUED

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Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Timothy Cutler (for and on behalf of KPMG LLP)
Chartered Accountants
St Peter's Square
Manchester
M2 3AE

01 July 2025

CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Revenue	3	**2,086.7**	**1,934.9**	**1,579.5**	**1,449.2**
Cost of sales		(1,677.3)	(1,575.4)	(1,250.1)	(1,154.0)
Gross surplus		**409.4**	**359.5**	**329.4**	**295.2**
Administrative expenses		(176.4)	(166.8)	(113.9)	(116.2)
Operating surplus	3, 4	**233.0**	**192.7**	**215.5**	**179.0**
Finance income	7	14.4	15.8	11.1	13.3
Finance costs	7	(162.9)	(153.9)	(164.7)	(156.2)
Surplus before taxation		**84.5**	**54.6**	**61.9**	**36.1**
Taxation	8	(33.4)	(15.3)	(26.3)	(9.7)
Surplus for the year	21	**51.1**	**39.3**	**35.6**	**26.4**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2025

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Surplus for the year	21	51.1	39.3	35.6	26.4
Other comprehensive income:					
Items which will not subsequently be reclassified to the income statement					
Actuarial loss on post employment benefit obligations, net of deferred taxation	21, 22	(38.2)	(36.2)	(38.5)	(34.5)
Total comprehensive income/(loss) for the year		12.9	3.1	(2.9)	(8.1)

The total comprehensive income or (loss) for the period are attributable to the owners of Scottish Water.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2025

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Assets					
Non-current assets					
Property, plant and equipment	9	7,885.6	7,476.3	7,852.6	7,442.2
Intangible assets	10	15.1	20.4	10.5	12.0
Investments	11	-	-	37.6	37.6
Retirement benefit asset	22	-	55.6	-	55.6
Deferred tax asset	16	1.9	3.0	-	-
		7,902.6	7,555.3	7,900.7	7,547.4
Current assets					
Inventories	12	4.6	4.9	4.6	4.4
Assets held for sale	9	3.1	7.9	-	-
Trade and other receivables	13	340.2	344.1	131.6	133.0
Current tax asset		11.2	17.0	11.6	16.5
Cash and cash equivalents	14	269.9	362.1	136.4	280.2
		629.0	736.0	284.2	434.1
Total assets	3	**8,531.6**	**8,291.3**	**8,184.9**	**7,981.5**
Liabilities					
Current liabilities					
Trade and other payables	15	(582.9)	(541.3)	(466.6)	(436.9)
Other loans and borrowings	18	(24.7)	(23.6)	(24.2)	(23.6)
Current tax liabilities		-	(2.1)	-	-
Provisions for liabilities	17	(11.2)	(11.7)	(14.1)	(16.0)
		(618.8)	(578.7)	(504.9)	(476.5)
Non-current liabilities					
Trade and other payables	15	(109.7)	(104.7)	(83.0)	(81.8)
Other loans and borrowings	18	(125.1)	(130.0)	(121.0)	(130.0)
Deferred tax liabilities	16	(714.4)	(688.9)	(711.6)	(686.6)
Retirement benefit obligations	22	(68.4)	(76.4)	(68.4)	(76.4)
Provisions for liabilities	17	(7.7)	(8.0)	(9.3)	(10.6)
		(1,025.3)	(1,008.0)	(993.3)	(985.4)
Total liabilities		**(1,644.1)**	**(1,586.7)**	**(1,498.2)**	**(1,461.9)**
Net assets		**6,887.5**	**6,704.6**	**6,686.7**	**6,519.6**
Equity					
Government loans	19	4,874.4	4,704.4	4,874.4	4,704.4
Retained earnings	21	1,879.7	1,866.8	1,678.9	1,681.8
Other reserves		133.4	133.4	133.4	133.4
		6,887.5	**6,704.6**	**6,686.7**	**6,519.6**

The financial statements on pages 114 to 156 were approved by the Board of Members on 25 June 2025 and signed on its behalf by:

Alex Plant
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2023		1,863.7	133.4	1,997.1
Surplus for the year	21	39.3	-	39.3
Other comprehensive loss:				-
Actuarial loss on post employment benefit obligations, net of tax	21, 22	(36.2)	-	(36.2)
Total comprehensive income for the year		3.1	-	3.1
Balance at 31 March 2024	21	**1,866.8**	**133.4**	**2,000.2**
Surplus for the year	21	51.1	-	51.1
Other comprehensive loss:				
Actuarial loss on post employment benefit obligations, net of tax	21, 22	(38.2)	-	(38.2)
Total comprehensive income for the year		12.9	-	12.9
Balance at 31 March 2025	21	**1,879.7**	**133.4**	**2,013.1**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2023		1,689.9	133.4	1,823.3
Surplus for the year	21	26.4	-	26.4
Other comprehensive loss:				
Actuarial loss on post employment benefit obligations, net of tax	21, 22	(34.5)	-	(34.5)
Total comprehensive loss for the year		(8.1)	-	(8.1)
Balance at 31 March 2024	21	**1,681.8**	**133.4**	**1,815.2**
Surplus for the year	21	35.6	-	35.6
Other comprehensive loss:				
Actuarial loss on post employment benefit obligations, net of tax	21, 22	(38.5)	-	(38.5)
Total comprehensive loss for the year		(2.9)	-	(2.9)
Balance at 31 March 2025	21	**1,678.9**	**133.4**	**1,812.3**

The 'Statement of changes in equity' above excludes Government loans which, in accordance with the Scottish Water Governance Directions 2009, are recorded on the statement of financial position under Equity. Full details of Government loans are provided in note 19.

STATEMENTS OF CASH FLOW
FOR THE YEAR ENDED 31 MARCH 2025

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Surplus before taxation		84.5	54.6	61.9	36.1
Depreciation charges	9	375.5	344.3	372.6	342.2
Amortisation of intangible asset	10	14.3	14.7	10.5	10.8
Amortisation of grants		(6.1)	(2.2)	(1.9)	(2.0)
(Surplus)/loss on disposal of property, plant and equipment		(1.5)	0.7	(1.6)	0.7
Non cash adjustment for retirement benefit obligations		(1.4)	(10.5)	(1.7)	(10.9)
Finance costs - net		148.5	138.1	153.6	142.9
Operating cash flow before changes in working capital and provisions		**613.8**	**539.7**	**593.4**	**519.8**
Changes in working capital and provisions: Decrease/(increase) in receivables		0.7	(29.9)	(1.8)	(12.2)
Decrease/(increase) in inventories		0.3	(0.4)	(0.2)	(0.3)
Increase in payables		63.7	28.4	43.5	31.2
(Decrease)/increase in provisions		(1.3)	2.2	(3.7)	6.5
Cash flows from operating activities		**677.2**	**540.0**	**631.2**	**545.0**
Taxation received/(paid)		9.7	(5.9)	16.5	-
Net cash generated from operating activities		686.9	534.1	647.7	545.0
Cash flows from investing activities					
Purchase of property, plant and equipment		(800.0)	(702.5)	(796.0)	(694.1)
Sale of property, plant and equipment		14.3	2.4	2.3	2.5
Purchase of intangible asset	10	(6.1)	(13.6)	(6.1)	(13.6)
Government grant income received		2.6	6.6	2.4	6.5
Infrastructure income receipts		12.9	13.3	12.9	13.3
Net cash utilised in investing activities		(776.3)	(693.8)	(784.5)	(685.4)
Cash flows from financing activities					
Repayments of loans		(168.6)	(137.1)	(168.6)	(137.1)
Proceeds from borrowings		338.6	332.8	338.6	332.8
Interest received		14.4	15.1	11.1	12.7
Interest paid		(160.0)	(153.5)	(161.8)	(155.7)
Payment of finance lease liabilities		(27.2)	(22.4)	(26.3)	(22.4)
Net cash (utilised) / generated from financing activities		(2.8)	34.9	(7.0)	30.3
Net decrease in cash and cash equivalents		**(92.2)**	**(124.8)**	**(143.8)**	**(110.1)**
Cash and cash equivalents at beginning of year	14	362.1	486.9	280.2	390.3
Cash and cash equivalents at end of year	14	**269.9**	**362.1**	**136.4**	**280.2**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

1. Accounting policies

1.1 General information
Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers. It is publicly owned, independently regulated and commercially run.

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

1.2 Basis of preparation
The financial statements of Scottish Water for the year ended 31 March 2025 have been prepared in accordance with UK adopted and endorsed International Financial Reporting Standards (IFRS) (using the cost model for property, plant and equipment, as directed under the Scottish Water Governance Directions) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, and where otherwise appropriate, as interpreted and adapted by the Government Financial Reporting Manual (FReM). The FReM is published by HM Treasury and is available from their website.

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through the income statement. The financial statements are prepared in a form directed by Scottish Ministers in accordance with section 45(2) of the Water Industry (Scotland) Act 2002. The Company's financial statements have been prepared on the same basis. All company disclosures throughout these financial statements refer to Scottish Water the parent entity and not "Company" per the Companies Act.

Scottish Water's accounting policies, as set out below, have been consistently applied to all the years presented, unless otherwise stated.

Scottish Water's financial statements have been prepared in accordance with IFRS using the cost model for property, plant and equipment and where appropriate as interpreted and adapted by the FReM since 1 April 2008. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Scottish Water's accounting policies (note 2).

The consolidated financial statements are presented in Pounds Sterling which is the functional and presentational currency of Scottish Water and its subsidiaries.

Going concern
The financial statements have been prepared on the going concern basis which the Members consider to be appropriate for the following reasons:

In considering the basis of accounting, cash flow forecasts have been prepared for a period of at least 12 months from the date of approval of these financial statements which consider various scenarios, taking into consideration severe but plausible impact downsides. These forecasts include the assessment of the group's strategic and financial frameworks, including the borrowing limit, operational positions and the level of the capital investment programme. Under all of the scenarios, Scottish Water will be able to operate within its available facilities.

Consequently, the Members are confident that Scottish Water will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Changes in accounting policy

New standards, amendments and interpretations effective or adopted by the Group
IFRS 16 Leases came into effect for financial periods beginning on or after 1 January 2019 for the subsidiary companies and is effective for Scottish Water from 1 April 2024. The modified retrospective approach has been applied and therefore comparative information has not been restated. As a practical expedient on transition to IFRS 16, as permitted under the Government Financial Reporting Manual (FReM), only contracts previously identified as containing a lease have been reassessed. Scottish Water's accounting policy for Leased assets (note 1.11) has been updated accordingly.

New standards, amendments and interpretations issued, but not yet adopted by the Group
In April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for periods beginning on or after 1 January 2027, with early application permitted. The Group will assess the expected impact of the adoption of the standard during the forthcoming year. The IASB also issued volume 11 of their annual improvements cycle covering amendments to IFRSs 1, 7, 9, 10 and IAS 7, applicable to periods beginning on or after 1 January 2026. These financial standards will be reviewed and interpreted for Scottish Water in advance of the implementation date and are not anticipated to have a material impact on the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

1. Accounting policies (continued)

1.4 Basis of consolidation

Subsidiaries
The consolidated financial information incorporates the results of Scottish Water (the company) and its trading subsidiaries. The consolidated financial information does not include the non trading subsidiaries as permitted under section 405 of the Companies Act 2006. Subsidiaries are all entities over which Scottish Water has the power to direct the relevant activities of the entities, the rights to variable returns and the ability to use its power to influence the returns. Scottish Water Business Stream Limited (Business Stream) is treated as a subsidiary although there are special governance arrangements which were established in conjunction with the Water Industry Commission for Scotland and associated with the conditions attached to Business Stream's licence for the supply of water and waste water services. Scottish Water is, however, satisfied that the controls and governance in place are such that consolidation is appropriate. Subsidiaries are fully consolidated from the date on which control is transferred to Scottish Water; they are de-consolidated from the date when control ceases.

Intercompany transactions, balances and any unrealised gains on transactions between Scottish Water related companies have been eliminated within the consolidated financial statements. Uniform accounting policies have been adopted across the Scottish Water group of companies.

1.5 Operating segments
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Scottish Water.

1.6 Revenue recognition
Revenue is recognised to the extent it is probable that economic benefits will flow to Scottish Water and that the revenue can be reliably measured. Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Revenue is shown net of associated sales taxes and value added tax and after eliminating sales between the Scottish Water related companies. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue.

Revenue comprises charges to customers for water and waste water services, and related services provided during the year in the normal course of business. For measured customers, revenue includes an estimate of the value of water and waste water services supplied to customers between the date of the last meter reading and the year end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

1.7 Research and development expenditure
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects which either do not meet the criteria defined in IAS 38 'Intangible assets' or are deemed to be not material, are recognised as an expense as incurred. Development costs which meet the relevant criteria are capitalised and written off over their expected useful lives. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

1.8 Finance income and costs
Finance income comprises interest receivable on funds invested and recognised in the income statement. Finance costs comprise interest payable on borrowings; interest related to lease liabilities under IFRIC 12 and IFRS 16 (see note 1.11); and interest on pension scheme net liabilities. Interest income and costs are recognised in the income statement as they accrue, on an effective interest rate method.

Borrowing costs incurred by Scottish Water that are not directly attributable to the acquisition, construction or production of qualifying assets are expensed in the period in which they are accrued.

1.9 Taxation
The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, unless it relates to items recognised directly in reserves in which case it is recognised in reserves.

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

1. Accounting policies (continued)

1.9 Taxation (continued)
Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by Scottish Water and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.10 Property, plant and equipment
Property, plant and equipment comprises water and waste water infrastructure assets, landscaping assets (including tree planting), and other assets, being overground assets including operational properties, plant, machinery and vehicles.

Property, plant and equipment are included at historical cost less accumulated depreciation and impairment. Cost includes the acquisition or construction cost together with any expenditure directly attributable to bringing the asset into use, including directly attributable internal costs and, where material, borrowing costs. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to Scottish Water and the cost of the item can be measured reliably. The carrying amount of the replaced parts, with the exception of infrastructure assets, are derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. All items of property, plant and equipment, with the exception of land, landscaping and assets under construction, are subject to depreciation.

Infrastructure assets
The infrastructure assets comprise a network of water and waste water systems including mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and outfalls. Expenditure on infrastructure assets, which relates to increases in capacity or enhancements of the network, is treated as additions. Expenditure incurred in maintaining and repairing the operating capability of the network is expensed in the year in which it is incurred. Depreciation is calculated for each component of the network with similar characteristics and asset lives.

Other assets
All other property, plant and equipment are depreciated on a straight-line basis over their estimated useful economic lives.

Depreciation
Depreciation is charged to the income statement to write-off cost, less residual values, on a straight-line basis over the estimated operational lives of the assets, from the month in which the asset comes into beneficial use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Freehold land, landscaping assets and assets under construction are not depreciated. The estimated useful lives for assets depreciated are as follows:

Infrastructure assets	80 to 150 years
Non-specialised operational buildings and structures	60 years
Fixtures, fittings and furniture within non-specialised operational buildings	5 years
Specialised operational buildings and structures	15 to 80 years
Plant, machinery and vehicles*	1 to 60 years

* Included within depreciation of plant, machinery and vehicles is depreciation relating to investigations on our assets. Investigations are capitalised and given a one year useful life.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

1. Accounting policies (continued)

1.11 Leased assets
Scottish Water recognises leased assets in relation to service concession arrangements in accordance with IFRIC 12, and for contracts assessed as being, or containing, a lease in accordance with IFRS 16.

Service concession agreements
Private Finance Initiative (PFI) contracts meet the definition of service concession arrangements and are therefore treated as finance leases, in accordance with IFRIC 12.

Assets held under finance leases are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, as determined at the inception of the PFI contract. The corresponding liability is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation. Finance charges are charged directly to the income statement. The property, plant and equipment acquired under finance leases are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term.

Contracts containing a lease
At inception or on reassessment of a contract that contains a lease component, the company and the group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

At lease commencement a right-of-use asset and a lease liability is recognised. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis over the shorter of its expected useful life on the same basis as for property, plant and equipment or, where shorter, the term of the lease agreement.

The lease liability is initially measured at the present value of the future lease payments discounted using the rate implicit in the lease, or if that rate is not available, the incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in estimate of the amount expected to be payable under a residual value guarantee, or if there is a change in assessment of whether an option to purchase, terminate or extend will be exercised. When the lease is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The company presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'other loans and borrowings' in the statement of financial position.

Leases with a duration of 12 months or less and leases for assets which are deemed "low value" are expensed to the income statement on a straight-line basis over the lease term.

1.12 Impairment of assets
The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be justified. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.13 Capital grants and customer contributions
Capital grants and customer contributions in respect of infrastructure assets are deducted from the cost of the non-current asset. Grants and contributions received in respect of non-infrastructure assets are credited to deferred income and are released to the income statement over the expected useful lives of the relevant non-current assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

1. Accounting policies (continued)

1.14 Intangible assets
Intangible assets represent software that is controlled by Scottish Water and/or its subsidiaries and the acquisition of a non-household customer bases, by Business Stream. Intangible assets are recognised at cost and treated as having a finite life. They are stated at cost less accumulated amortisation. Amortisation is charged to the income statement to write off the cost, less any residual value, on a straight-line basis over the expected useful life from the month in which the asset comes into beneficial use.

The expected useful lives and residual values are reviewed annually, and adjusted if appropriate, at the statement of financial position date.

1.15 Investments
Investments in subsidiaries, held as non-current assets, are stated at cost less any provision for impairment. Any impairment is charged to the income statement as it arises.

1.16 Inventories
Inventories and work in progress are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost includes all costs incurred in bringing each asset to its present location and condition. The valuation of work in progress is based on the cost of labour and materials plus appropriate overheads.

1.17 Financial instruments
Financial assets and liabilities are recognised in the statement of financial position when an obligation is identified and released as that obligation is fulfilled. Scottish Water's financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, as well as trade and other payables that arise directly from operations. Scottish Water's policy is not to trade or speculate in financial instruments but under special circumstances, Scottish Water may use financial instruments to mitigate certain financial risk exposures. As such circumstances are rare, approval is required from Scottish Ministers. All treasury activities are undertaken in accordance with the permitted activities as set out in the Scottish Water Governance Directions.

a. Trade receivables
Trade receivables are recorded at net realisable value after deducting a provision where there is evidence that Scottish Water will not be able to collect all amounts due. The provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile of the outstanding debt. Trade receivable balances, with the exception of statutory debt, are written off when Scottish Water determines that it is unlikely that future remittances will be received. Trade receivables do not carry any interest.

b. Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits with banks, which have a maturity of 3 months or less from the date of acquisition and which are subject to an insignificant risk of change in value.

c. Trade and other payables
Trade and other payables are stated at cost.

d. Interest-bearing loans and borrowings
Borrowings are recognised initially at fair value and are subsequently stated at amortised cost. Overdrafts and non Government loans are classified as current liabilities unless Scottish Water has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

e. Derivative financial instruments
In special circumstances, Scottish Water may use financial instruments to mitigate certain financial risk exposures such as foreign exchange fluctuations. As such circumstances are rare, in addition to the approval of the Scottish Water Board, approval is required from Scottish Ministers under the terms of section 42(3)(b) Water Industry (Scotland) Act 2002.

Financial derivative instruments are recognised at fair value and are re-measured to fair value each reporting period with the exception of derivatives that qualify for cash flow hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

1. Accounting policies (continued)

f. Cash flow hedges
Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in the income statement.

When the hedging relationship ends or when a hedge no longer meets the criteria for hedge accounting, any hedging gain or loss recognised in OCI is reclassified to the income statement.

1.18 Employee benefit obligations
Employees of the Scottish Water group of companies participate in the Scottish Local Government Pension Scheme (SLGPS) administered by Aberdeen, Glasgow and Edinburgh City Councils, all of which are defined benefit schemes. Pension scheme assets are measured using the bid market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the defined benefit pension schemes expected to arise from employee service in the period is charged to operating surplus. The net interest cost for the period, calculated by applying the discount rate to the net pension scheme liabilities, is included in the finance costs. Actuarial gains and losses are recognised as an item of 'other comprehensive income' in the consolidated statement of comprehensive income. Pension scheme deficits and surpluses, to the extent that the surplus is considered recoverable, are recognised in full and presented on the face of the Statement of financial position.

Unfunded liabilities relate to discretionary benefits that exceed those offered by the individual pension funds. Liabilities are recognised at the point awards are made. However, no investment assets are accrued to offset these pension liabilities, requiring the generation of cash to cover actual pension payments as they fall due.

Within the subsidiary companies there are also two defined contribution pension schemes under which the companies pay fixed contributions and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement.

1.19 Provisions
Provisions are recognised when there is a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation. Provisions currently relate to income uncertainty, onerous property rental costs and redundancy costs associated with employees who have left Scottish Water under previous voluntary redundancy and early retirement. Pension related liabilities associated with employees who have left Scottish Water under the voluntary severance scheme are recognised in the pension liability (see note 1.18).

1.20 Foreign currency transactions
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transactions. Foreign exchange gains and losses resulting from (i) the settlement of such transactions and (ii) the retranslation to exchange rates ruling at the statement of financial position date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.21 Indebtedness to the Scottish Ministers
Loans from the National Loans Fund, the Scottish Consolidated Fund and other Government borrowings are treated as part of equity, including loan repayments due within one year, in accordance with the Scottish Water Governance Directions.

1.22 Common control transactions
Any business combinations or transfer of assets and liabilities within the group are transferred at book value at the transaction date. These transactions are considered to be common control transactions and are excluded from the scope of IFRS 3 - Business Combinations'.

1.23 Assets held for sale
Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered through sale rather than through continuing use. Assets classified as held for sale are presented separately on the statement of financial position and are measured at the lower of carrying value and fair value less cost of sale. Once classified as held-for-sale, property, plant and equipment are no longer depreciated. Impairments are considered at the point of, and following classification as held for sale. Any impairments are recognised through the income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

2. Accounting estimates and judgements

The preparation of financial statements to conform to IFRS requires the use of estimates, assumptions and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts for revenue and expenses during the reporting period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates, the effect of which is recognised in the period in which the facts giving rise to the revision arise.

The most critical of these accounting judgement and estimation areas are noted below.

a. Revenue recognition
Revenue relating to metered customers includes an estimate of the value of water or waste water services supplied between the date of the last meter reading and the year end. At the statement of financial position date, the estimated consumption by customers will either have been billed (estimated billed revenue) or accrued (unbilled revenue). Using historical consumption patterns, management apply judgement to the measurement of the quantum of the estimated consumption and to the valuation of that consumption. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have no material impact upon the amount of revenue recognised.

b. Impairment of trade and other receivables
Scottish Water and each of its subsidiaries evaluate the recoverability of their trade receivables as at the reporting date and assess the allowances for doubtful receivables. The group has adopted IFRS 9 'Financial instruments' from 1 April 2018 which requires an expected loss method of impairment of financial assets to be used. This is based on, amongst other factors, actual collection history, forecast rates and customer category. The actual level of receivables collected may differ from those estimated, due to factors such as changes in customer behaviour, potential impact of government policy initiatives and the economic outlook, which could impact positively or negatively on operating results (see sensitivity analysis in note 26).

c. Carrying value of property, plant and equipment
Property, plant and equipment (PPE) represents the majority of the asset base and a significant proportion of annual expenditure (see financial performance in the overview section). Therefore the estimates and assumptions made in determining the carrying values and related depreciation are critical to Scottish Water's financial performance and position.

The estimated useful economic lives and residual values of PPE are based on management's judgement and experience. Due to the significant value and economic life of PPE investment, variations between actual and estimated economic lives could impact on operating results both positively and negatively. When management identifies that actual useful economic lives differ materially from the estimates used, the relevant depreciation charge is adjusted prospectively. However, historically, any changes to estimated useful lives and residual values have not resulted in material changes to Scottish Water's depreciation charges.

Management also applies judgement in relation to the expected economic lives of asset investigation related activity. Where investigations take place across a group of assets management apply prudence and consider a short useful life to be appropriate. Investigations related to specific assets are considered part of bringing the asset into beneficial use.

Each financial year, in accordance with IAS 23 'Borrowing costs', Scottish Water calculates the amount of borrowing which would be attributable to the PPE acquired or under construction. To date these amounts have been immaterial and therefore not capitalised.

d. Provisions
The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The evaluation of the likelihood of the contingent events has required the best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseen developments, this likelihood could alter.

e. Retirement benefits
Scottish Water and its subsidiaries are participating employers in 3 Scottish Local Government Pension Schemes (SLGPS) which are defined benefit schemes. Actuarial valuations of the schemes are carried out by the administering authorities triennially in line with SLGPS regulations. The assumptions in relation to the cost of providing post-retirement benefits during the period are set after consultation with qualified actuaries. These assumptions include discount rates, returns on the schemes' assets, pay growth and increases to pension payments (see note 22) and, while these assumptions are believed to be appropriate, a change to the assumptions would impact the surplus of Scottish Water and the carrying amount of pension obligations. These assumptions may differ from the actual results due to changes in market and economic conditions and longer or shorter lives of participants.

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3 Segmental analysis

The principal activities of the Scottish Water group of companies are the supply of water and waste water services to household and business customers across Scotland. In view of the integrated nature of Scottish Water's operational activities, the financial statements include all of the costs of water and waste water collection, treatment and distribution within cost of sales.

Scottish Water's reportable segments are the provision of regulated water and waste water services, Business Stream (a Licensed Provider in the supply of water and waste water services to business customers in Scotland and England) and non-regulated businesses. These operating segments reflect the internal management reporting that are reviewed regularly by the Board in order to allocate resources to and assess the performance of the segments.

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Revenue				
Scottish Water regulated water and waste water services	1,579.5	1,446.3	1,579.5	1,446.3
Business Stream	707.5	676.2	-	-
Scottish Water non-regulated activities*	18.9	20.6	-	2.9
	2,305.9	2,143.1	1,579.5	1,449.2
Intercompany elimination	(219.2)	(208.2)	-	-
	2,086.7	**1,934.9**	**1,579.5**	**1,449.2**
Operating Costs				
Scottish Water regulated water and waste water services	(1,364.0)	(1,267.1)	(1,364.0)	(1,267.1)
Business Stream	(692.3)	(663.9)	-	-
Scottish Water non-regulated activities*	(22.0)	(19.4)	-	(3.1)
	(2,078.3)	(1,950.4)	(1,364.0)	(1,270.2)
Intercompany elimination	224.6	208.2	-	-
	(1,853.7)	**(1,742.2)**	**(1,364.0)**	**(1,270.2)**
Operating surplus				
Scottish Water regulated water and waste water services	215.5	179.2	215.5	179.2
Business Stream	15.2	12.3	-	-
Scottish Water non-regulated activities*	(3.1)	1.2	-	(0.2)
	227.6	192.7	215.5	179.0
Intercompany elimination	5.4	-	-	-
	233.0	**192.7**	**215.5**	**179.0**
Total assets				
Scottish Water regulated water and waste water services	8,146.4	7,943.3	8,184.9	7,981.5
Business Stream	294.9	258.5	-	-
Scottish Water non-regulated activities	90.3	89.5	-	-
	8,531.6	**8,291.3**	**8,184.9**	**7,981.5**

*In February 2025, the Water Industry Commission for Scotland (WICS) issued updated Regulatory Accounting Rules (RARs). Consequently, £2.8 million (2024: £2.9 million) of revenue and £2.8 million (2024: £3.1 million) of operating costs previously classified as Scottish Water non-regulated activities have been included within the Scottish Water regulated water and waste water services segment for the first time. Prior year segmental analysis has not been restated following the RARs update as the adjustment is immaterial and has no impact on the disclosures in the Income Statement.

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3 Segmental analysis (continued)

Group	Capital additions to property, plant & equipment		Depreciation on property, plant & equipment	
	2025 £m	2024 £m	2025 £m	2024 £m
Scottish Water regulated water and waste water services	777.9	695.9	372.6	342.2
Business Stream	1.1	2.0	1.4	0.4
Scottish Water non-regulated activities	2.5	4.9	1.5	1.7
	781.5	**702.8**	**375.5**	**344.3**

Group revenue by geographical location of customers is as follows:

	Revenue	
	2025 £m	2024 £m
United Kingdom	2,086.4	1,934.6
Rest of the World	0.3	0.3
	2,086.7	**1,934.9**

£0.3 million of revenue has been generated outside the UK (2024: £0.3 million) and this resulted in a current tax charge of £nil (2024: £nil). The revenue was entirely derived from Australia where we have a tax residency and registered branch. There are no offices in Australia and only one member of staff in the country.

All revenue for the company has been generated within the United Kingdom.

4 Operating surplus

Operating surplus is arrived at after charging/(crediting):

		Group	
	Note	2025 £m	2024 £m
Scottish Water PFI operating costs		135.7	127.5
Depreciation of property, plant and equipment	9	375.5	344.3
Amortisation of intangible asset	10	14.3	14.7
(Profit)/Loss on sale of property, plant and equipment		(1.5)	0.7
Release of deferred income in relation to capital grants		(6.1)	(2.2)
Auditor's remuneration*			
- audit fee for audit of the company and consolidated financial statements including £318,349 (2024: £221,000) in respect of the audit of subsidiary companies)		0.8	0.7
- other services		–	–
Research and development expenditure		(0.2)	(0.3)

* The Auditor General for Scotland appoints the auditor for Scottish Water with remuneration agreed by Audit Scotland for the Scottish Water company audit.

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5 Staff costs

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Wages and salaries		228.6	210.4	209.1	190.8
Social security costs		26.9	22.9	24.8	20.8
IAS 19 total service costs[1]	22	31.4	34.3	30.8	33.3
Other pension costs		0.6	0.6	-	-
Employee benefit expense		287.5	268.2	264.7	244.9
Less: charged as capital expenditure		(117.3)	(109.3)	(114.9)	(107.1)
		170.2	**158.9**	**149.8**	**137.8**

[1]The charge in the year prior to adjustments for IAS 19 in 2025 was £33.2 million (2024: £45.3 million).

The average monthly number of people (including Executive and Non-executive Members) employed by Scottish Water, split by activity, during the year was:

	2025	2024
Regulated water and waste water services	4,529	4,331
Business Stream	291	305
Scottish Water non-regulated activities	114	114
	4,934	**4,750**

Off-payroll engagements
The tables below show the total number of off-payroll engagements, by reportable segment, at a cost equal to or greater than £245 per day. The tables show the number that continue to be engaged at the balance sheet date and the number engaged during the year.

Off-payroll worker engagements as at 31 March 2025 earning £245 per day or greater.

	Regulated water and waste water services[1]	Business Stream	Non-regulated services
No. of existing engagements as at 31 March 2025	118	3	-
of which, at time of reporting…			
Number that have existed for less than one year	16	2	-
Number that have existed for between one and two years	22	-	-
Number that have existed for between two and three years	11	-	-
Number that have existed for between three and four years	22	-	-
Number that have existed for four or more years	47	1	-

All off-payroll workers engaged at any point during the year ended 31 March 2025 earning £245 per day or greater.

No. of temporary off-payroll workers engaged during the year ended 31 March 2025	146	6	-
of which…			
Not subject to off-payroll legislation	146	-	-
Subject to off-payroll legislation and determined as in-scope of IR35	-	4	-
Subject to off-payroll legislation and determined out-of-scope of IR35	-	2	-
No. of engagements reassessed for compliance or assurance purposes during the year	-	-	-
Of which: no. of engagements that saw a change to IR35 status following review	-	-	-

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5 Staff costs (continued)

For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2024 and 31 March 2025

	Regulated water and waste water services[1]	Business Stream	Non-regulated services
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	–	–	–
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year.	20	16	17

[1] Scottish Water does not engage with off-payroll workers where Scottish Water is the end client. For regulated water and waste water services the values disclosed include workers engaged via umbrella organisations and agencies which fall outwith the off-payroll worker legislation.

The table below shows the total cost of consultancy and temporary staff by reporting segment in the year.

	2025 £m	2024 £m
Regulated water and waste water services	19.6	18.9
Business Stream	3.7	2.3
Non-regulated activities	0.1	-
	23.4	**21.2**

6 Members' remuneration

Information concerning Members' remuneration, incentive schemes and pensions is detailed in the Remuneration Report on pages 95 to 107.

7 Finance income and costs

	Note	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
Interest income:					
Short-term deposits		14.4	15.1	11.1	12.7
Interest on pension scheme net assets	22	-	0.7	-	0.6
Finance income		**14.4**	**15.8**	**11.1**	**13.3**
Interest expense:					
Government loans		(148.9)	(141.6)	(148.9)	(141.6)
Other loans		(2.5)	(1.9)	(4.5)	(4.2)
Finance lease liabilities		(9.9)	(10.4)	(9.7)	(10.4)
Interest on pension scheme net liabilities	22	(1.6)	-	(1.6)	-
Finance costs		**(162.9)**	**(153.9)**	**(164.7)**	**(156.2)**
Net finance costs		**(148.5)**	**(138.1)**	**(153.6)**	**(142.9)**

NOTES TO THE FINANCIAL STATEMENTS
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8 Taxation

	Note	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
Analysis of tax charge recognised in the income statement					
Current tax: UK corporation tax		-	5.6	(6.3)	-
Adjustment in respect of prior years		(6.0)	0.5	(5.3)	-
		(6.0)	6.1	(11.6)	-
Deferred tax: Origination and reversal of timing differences – current year		27.2	14.5	25.8	13.5
Origination and reversal of timing differences – prior years		12.2	(5.3)	12.1	(3.8)
	16	39.4	9.2	37.9	9.7
Total tax charge		**33.4**	**15.3**	**26.3**	**9.7**
The charge for the year can be reconciled to the surplus per the income statement as follows:					
Group surplus before tax		84.5	54.6	61.9	36.1
Tax on surplus on ordinary activities at standard UK corporation tax rate of 25% (2024: 25%)		21.1	13.7	15.5	9.0
Adjustment in respect of prior years		6.2	(4.8)	6.8	(3.8)
Accounting gain with no capital gain		(0.3)	0.2	(0.4)	0.1
Depreciation on non qualifying additions		3.9	4.0	3.9	4.0
Other permanent differences		1.6	1.4	0.5	0.4
Previously unrecognised deferred tax asset now recognised		(0.1)	-	-	-
Other timing differences		1.0	0.8	-	-
Total tax charge for the year		**33.4**	**15.3**	**26.3**	**9.7**

Scottish Water continues to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays and the reported total taxation charge along with additional commentary on the main reconciling items.

Group	2025 £m	2024 £m
Additional Disclosure		
The table below reconciles the notional tax charge at the UK corporation tax rate to the total current tax charge for the year:		
Group surplus before tax	84.5	54.6
Tax on surplus on ordinary activities at standard UK corporation tax rate of 25% (2024: 25%)	21.1	13.7
Relief for capital allowances in excess of depreciation	(81.6)	(56.9)
Financial transactions timing differences	(3.3)	2.0
Increase in tax losses	58.3	41.4
Expenses not deductible for tax purposes	1.6	1.4
Depreciation on non qualifying additions	3.9	4.0
Adjustment in respect of prior years	(6.0)	0.5
Current tax charge for the year	**(6.0)**	**6.1**

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8 Taxation (continued)

The Group's current tax charge is lower than the UK headline rate of 25% (2024: lower) primarily due to the availability of capital allowances and group relief. The prior year adjustment for current tax includes group relief claims made in the submitted tax computations. This meant tax losses from the parent company were surrendered to other group companies to reduce their tax payable.

Tax Relief is available in the form of capital allowances in relation to qualifying items of capital expenditure instead of accounting depreciation. This leads to significant differences between the accounting profit and the taxable profit and is designed to encourage investment.

The Finance Act 2021 introduced a super deduction for asset purchases made in the period 1 April 2021 to 31 March 2023, allowing companies to benefit from a 130% first year allowance for capital expenditure on qualifying new plant and machinery assets. In the Spring Budget 2023, the government announced full expensing would be introduced from 1 April 2023 to 31 March 2026 however in the Autumn Statement 2023, the government announced full expensing would be permanent.

The Group's current tax charge for the year includes the benefit of full expensing which is available on expenditure incurred on qualifying plant and machinery assets acquired in the period. Full expensing provides 100% first-year relief to companies on qualifying new main rate plant and machinery investments and 50% first-year allowance for expenditure by companies on new special rate (including long life) assets.

There are also various other financial transaction adjustments where there is a simple timing difference between recognition of the income or expenses in the accounts and in the related tax computations submitted to HMRC. The main adjustment is the movement in general provisions which are disallowed unless utilised.

The level of capital allowances received in the current year has led to an increase in tax losses which can be carried forward to be utilised at a future date against taxable profits.

Some expenses are disallowed for tax purposes. These include amortisation and an element of lease car rentals. Some capital expenditure relating to non qualifying additions that is depreciated in the accounts does not qualify for any corresponding tax deduction.

Adjustments to tax charges in respect of prior years are quite common and are mainly due to different deadlines for completion of the accounts and tax returns. The tax charge for the previous year was calculated for the accounts before the corporation tax returns had been finalised and submitted to HMRC. This creates a prior year adjustment in the following year to reflect any changes between tax in the accounts and the actual tax returns that were submitted.

There are no tax uncertainties or uncertain tax provisions included for the year ended 31st March 2025. (2024: none)

Under the OECD's Base Erosion and Profit Shifting Initiative ("BEPS"), the UK's version of the Pillar 2 rules was included in the Finance Act (No.2) 2023 which was granted royal assent on 20 July 2023, and came into effect in relation to accounting periods beginning on or after 31 December 2023. Therefore the rules will be effective for the accounting period ending 31st March 2025 for the group. An assessment has been carried out and the group has concluded that it will fall within the rules. However, the Group should meet the UK's simplified Effective Tax Rate ("ETR") transitional safe harbour provision and management are not aware of any circumstances that may change this. Therefore, the group does not expect an exposure to Pillar 2 taxes.

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Tax charge recognised directly in reserves					
Deferred tax relating to:					
Pension scheme actuarial movements	22	(12.8)	(12.1)	(12.9)	(11.6)
Total	16	**(12.8)**	**(12.1)**	**(12.9)**	**(11.6)**

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9 Property, plant and equipment

	Specialised operational properties and structures £m	Assets held for sale (SOPS) £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Assets under construction £m	Total £m
Group Cost							
At 1 April 2023	3,503.0	8.5	106.6	3,046.0	3,098.8	1,314.9	11,077.8
Additions	1.0	-	-	-	0.5	701.3	702.8
Disposals[1]	(59.0)	-	(2.8)	(2.0)	(123.1)	-	(186.9)
Reclassifications	153.6	-	7.6	189.7	374.1	(738.6)	(13.6)
At 31 March 2024	3,598.6	8.5	111.4	3,233.7	3,350.3	1,277.6	11,580.1
Adjustment to opening balance for right of use assets at 1 April 2024	1.4	-	13.7	-	5.2	-	20.3
	3,600.0	8.5	125.1	3,233.7	3,355.5	1,277.6	11,600.4
Additions	(6.0)	6.1	0.1	-	3.1	778.2	781.5
Disposals[1]	(53.3)	(8.5)	(1.0)	-	(132.9)	(1.8)	(197.5)
Reclassifications	112.8	-	4.7	180.2	279.2	(585.9)	(9.0)
At 31 March 2025	3,653.5	6.1	128.9	3,413.9	3,504.9	1,468.1	12,175.4
Accumulated depreciation							
At 1 April 2023	1,359.5	0.6	33.1	623.3	1,918.8	-	3,935.3
Charge for the year	70.7	-	3.3	23.1	247.2	-	344.3
Disposals[1]	(56.7)	-	(1.9)	(2.0)	(123.1)	-	(183.7)
At 31 March 2024	1,373.5	0.6	34.5	644.4	2,042.9	-	4,095.9
Charge for the year	68.8	3.0	3.4	24.1	276.2	-	375.5
Disposals[1]	(50.2)	(0.6)	(1.0)	-	(132.9)	-	(184.7)
At 31 March 2025	1,392.1	3.0	36.9	668.5	2,186.2	-	4,286.7
Net book value							
At 31 March 2025	**2,261.4**	**3.1**	**92.0**	**2,745.4**	**1,318.7**	**1,468.1**	**7,888.7**
At 31 March 2024	2,225.1	7.9	76.9	2,589.3	1,307.4	1,277.6	7,484.2

All capital investment is recognised initially within assets under construction. When assets are capable of performing the function for which they were constructed and come into beneficial use, they are reclassified and transferred from assets under construction to the appropriate property, plant and equipment category.

Capital grants received during the year and credited to deferred income were £1.2 million (2024: £0.8 million). Capital grants of £5.3 million were received during the year in respect of infrastructure assets. Grants in respect of infrastructure assets are netted against the gross cost of bringing the asset into beneficial use, in line with IAS 20 'government grants and disclosure of government assistance'. In 2024/25 the amount utilised in relation to infrastructure charges and netted against property, plant and equipment was £16.6 million.

[1] Disposals include the write down of redundant assets no longer in beneficial use.

Assets held for sale
During the year, SWH has concluded the sale of specific waste to heat assets identified as assets held for sale in the prior year. These were sold during the year as part of a wider transaction involving similar assets held by another group company. The total sale proceeds relating to the waste to heat assets were £11.7 million, with a combined net book value of £7.9 million.

In addition, SWH's anaerobic digestion (AD) plant was classified as held for sale as at 31 March 2025. A sale agreement was signed shortly before 31 March 2025, with the agreed sale price below the net book value. Therefore, under IFRS 5 - Non-current assets held for sale and discontinued operations, the asset was impaired to its fair value less costs to sell, and costs were incurred to prepare the plant for sale, including write-downs of stock and related operating expenses. Consequently, the assets are presented within note 9 to the financial statements at their fair value of £3.1 million as at 31 March 2025. The total financial impact recognised in 2024/25 related to the AD plant was a net loss of £2.4 million, reflecting both the impairment and associated pre-sale costs. Not all of these costs met the IFRS 5 definition of 'costs to sell' and were instead recognised directly in the Income Statement.

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9 Property, plant and equipment (continued)

Right of use assets
Included within property, plant and equipment are the following right of use assets resulting from lease agreements.

	Specialised operational properties and structures £m	Non-specialised operational properties £m	Plant, machinery and vehicles £m	Other £m	Total £m
Group Cost					
At 1 April 2024	1.4	13.7	5.2	-	20.3
Additions	0.1	0.1	2.9	-	3.1
Disposals	-	-	-	-	-
Reclassifications	(0.4)	0.4	-	-	-
At 31 March 2025	1.1	14.2	8.1	-	23.4
Accumulated depreciation					
At 1 April 2024	-	-	-	-	-
Charge for the year	0.1	0.6	2.9	-	3.6
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 31 March 2025	0.1	0.6	2.9	-	3.6
Net book value					
At 31 March 2025	**1.0**	**13.6**	**5.2**	**-**	**19.8**
At 1 April 2024	1.4	13.7	5.2	-	20.3

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9 Property, plant and equipment (continued)

	Specialised operational properties and structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Assets under construction £m	Total £m
Company Cost						
At 1 April 2023	3,465.3	106.6	3,046.0	3,078.6	1,311.2	11,007.7
Additions	-	-	-	-	695.9	695.9
Disposals*	(58.9)	(2.8)	(2.0)	(123.1)	-	(186.8)
Reclassifications	151.2	7.6	189.7	374.1	(736.2)	(13.6)
At 31 March 2024	3,557.6	111.4	3,233.7	3,329.6	1,270.9	11,503.2
Adjustment to opening balance for right of use assets at 1 April 2024	1.4	8.5	-	4.9	-	14.8
	3,559.0	119.9	3,233.7	3,334.5	1,270.9	11,518.0
Additions	0.1	0.1	-	2.9	774.8	777.9
Disposals[1]	(44.0)	(1.0)	-	(132.7)	-	(177.7)
Reclassifications	108.1	4.7	180.2	278.5	(580.5)	(9.0)
At 31 March 2025	3,623.2	123.7	3,413.9	3,483.2	1,465.2	12,109.2
Accumulated depreciation						
At 1 April 2023	1,347.4	33.1	623.3	1,898.6	-	3,902.4
Charge for the year	69.0	3.3	23.1	246.8	-	342.2
Disposals[1]	(56.6)	(1.9)	(2.0)	(123.1)	-	(183.6)
At 31 March 2024	1,359.8	34.5	644.4	2,022.3	-	4,061.0
Charge for the year	70.3	3.4	24.1	274.8	-	372.6
Disposals[1]	(43.4)	(1.0)	-	(132.6)	-	(177.0)
At 31 March 2025	1,386.7	36.9	668.5	2,164.5	-	4,256.6
Net book value						
At 31 March 2025	**2,236.5**	**86.8**	**2,745.4**	**1,318.7**	**1,465.2**	**7,852.6**
At 31 March 2024	2,197.8	76.9	2,589.3	1,307.3	1,270.9	7,442.2

* Disposals include the write down of redundant assets no longer in beneficial use.

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9 Property, plant and equipment (continued)

Right of use assets
Included within property, plant and equipment are the following right of use assets resulting from lease agreements.

	Specialised operational properties and structures £m	Non-specialised operational properties £m	Plant, machinery and vehicles £m	Other £m	Total £m
Company Cost					
At 1 April 2024	1.4	8.5	4.9	-	14.8
Additions	0.1	0.1	2.9	-	3.1
Disposals	-	-	-	-	-
Reclassifications	(0.4)	0.4	-	-	-
At 31 March 2025	1.1	9.0	7.8	-	17.9
Accumulated depreciation					
At 1 April 2024	-	-	-	-	-
Charge for the year	0.1	0.6	2.3	-	3.0
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 31 March 2025	0.1	0.6	2.3	-	3.0
Net book value					
At 31 March 2025	**1.0**	**8.4**	**5.5**	**-**	**14.9**
At 1 April 2024	1.4	8.5	4.9	-	14.8

Included within specialised operational properties and structures and plant, machinery and vehicles are the following PFI assets which are held under finance leases. These assets are included within the previous tables for both the Scottish Water group and company.

	Group Total £m	Company Total £m
Cost		
At 1 April 2023, 2024 and 2025	460.0	460.0
Accumulated depreciation		
At 1 April 2023	284.8	284.8
Charge for the year	12.2	12.2
At 31 March 2024	297.0	297.0
Charge for the year	12.1	12.1
At 31 March 2025	309.1	309.1
Net book value		
At 31 March 2025	**150.9**	**150.9**
At 31 March 2024	163.0	163.0

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10 Intangible asset

Investment intangible assets relate to the acquisition of the non-household customer base of Southern Water Services Limited in April 2017 and, in October 2019, of the non-household customer books of Yorkshire Water Business Services and Three-Sixty, both part of the Kelda Group. The investments are treated as having a finite life and is being amortised on a straight-line basis over the expected useful life, currently set at 8 years. The cost, additions, amortisation charge and carrying value are shown in the table below.

Software intangible assets relate to implementation costs associated with cloud computing software that meet the definition of an intangible asset under IAS38 and software that is controlled by Scottish Water and/or its subsidiaries. Software intangible assets are amortised on a straight-line basis over a period of 3-5 years. The cost, additions, amortisation and carrying value are shown in the table below.

	Software £m	Investments £m	Total £m
Group Cost			
As at 1 April 2023	78.8	23.2	102
Additions	13.6	-	13.6
Disposals*	(4.7)	-	(4.7)
At 31 March 2024	87.7	23.2	110.9
Additions	6.1		6.1
Transfer from Property, plant and equipment	2.9		2.9
At 31 March 2025	96.7	23.2	119.9
Accumulated amortisation			
As at 1 April 2023	64.3	16.2	80.5
Amortisation charge	12.2	2.5	14.7
Disposals*	(4.7)	-	(4.7)
At 31 March 2024	71.8	18.7	90.5
Amortisation charge	11.8	2.5	14.3
Disposals*	-	-	-
At 31 March 2024	83.6	21.2	104.8
Net book value			
At 31 March 2025	**13.1**	**2.0**	**15.1**
At 31 March 2024	15.9	4.5	20.4

* Disposals include the write down of redundant assets no longer in beneficial use.

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10 Intangible asset (continued)

	Software £m	Investments £m	Total £m
Company Cost			
As at 1 April 2023	72.4	-	72.4
Additions	13.6	-	13.6
Disposals*	(4.7)	-	(4.7)
At 31 March 2024	81.3	-	81.3
Additions	6.1	-	6.1
Transfer from Property, plant and equipment	2.9		2.9
At 31 March 2025	90.3	-	90.3
Accumulated amortisation			
As at 1 April 2023	63.2	-	63.2
Amortisation charge	10.8	-	10.8
Disposals*	(4.7)	-	(4.7)
At 31 March 2024	69.3	-	69.3
Amortisation charge	10.5	-	10.5
At 31 March 2025	79.8	-	79.8
Net book value			
At 31 March 2025	**10.5**	**-**	**10.5**
At 31 March 2024	12.0	-	12.0

* Disposals include the write down of redundant assets no longer in beneficial use.

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11 Investments

	Company 2025 £m	Company 2024 £m
Cost and net book value		
At 31 March	**37.6**	**37.6**

Investment in subsidiaries

Principal subsidiary undertakings	Country of incorporation	% of Ordinary shares and votes held	Principal activity
Scottish Water Horizons Holdings Limited *	Scotland	100.0	Holding company
Scottish Water Business Stream Holdings Limited [1]*	Scotland	100.0	Holding company
Scottish Water Business Stream Limited [2]	Scotland	100.0	Licensed water and waste water services
Scottish Water Horizons Limited [1]	Scotland	100.0	Commercial non regulated water and waste water services
Scottish Water Services (Grampian) Limited [1]*	Scotland	100.0	Waste water service operator
Bandwidth Energy Limited [5]*	Scotland	100.0	Non trading
Aberdeen Environmental Services Limited [3]*	Scotland	100.0	Non trading
Aberdeen Environmental Services (Holdings) Limited [4]	Scotland	100.0	Non trading
Aberdeen Holdco Limited	England & Wales	100.0	Non trading

[1] owned by Scottish Water Horizons Holdings Limited
[2] owned by Scottish Water Business Stream Holdings Limited
[3] owned by Aberdeen Environmental Services (Holdings) Limited
[4] owned by Aberdeen Holdco Limited
[5] owned by Scottish Water Horizons Limited

Scottish Water owns shares in a further 9 companies which did not trade during the year ended 31 March 2025. The companies' financial statements have not been consolidated as permitted by Section 405 of the Companies Act 2006, as they did not trade during the year and the issued share capital is immaterial. The companies are:

Scottish Water Ltd
Scottish Water Retail Ltd
Scottish Water Technology Ltd
Scottish Water Utilities Ltd
Scottish Water Wholesale Ltd
OneSource Infrastructure Services Ltd
Water Solutions Ltd
Business Stream Ltd [6]
Scottish Water International Limited [7]

[6] owned by Scottish Water Business Stream Limited
[7] owned by Scottish Water Horizons Holdings Limited

* Bandwidth Energy Limited, Aberdeen Environmental Services Limited, Scottish Water Services (Grampian) Limited, Scottish Water Horizons Holdings Limited, and Scottish Water Business Stream Holdings Limited are exempt from the requirement of the Companies Act 2006 relating to the audit of accounts under Section 479A of the Companies Act 2006.

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12 Inventories

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Raw materials and consumables	4.8	5.0	4.8	4.5
Less provision held	(0.2)	(0.1)	(0.2)	(0.1)
	4.6	**4.9**	**4.6**	**4.4**

All inventories will be recovered within 12 months.

During the year to March 2025, inventories recognised within cost of sales were £2.3 million (2024: £2.2 million).

13 Trade and other receivables

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Net trade receivables	26	232.4	205.1	94.0	77.0
Other receivables		23.1	40.7	20.0	37.3
Prepayments and accrued income		84.7	98.3	17.6	18.7
		340.2	**344.1**	**131.6**	**133.0**

Management considers the carrying value of trade and other receivables are equal to the fair value.

14 Cash and cash equivalents

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Cash at bank and in hand	185.2	182.3	51.7	100.4
Short-term bank deposits	84.7	179.8	84.7	179.8
Cash and cash equivalents per the statement of cash flows	**269.9**	**362.1**	**136.4**	**280.2**

The fair values of cash and cash equivalents are not different from those disclosed above.

In Business Stream, letters of credit to the value of £21.8 million (2024: £16.7 million) were renewed in relation to ongoing wholesale prepayments made to wholesalers operating in the English market.

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15 Trade and other payables

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current				
Trade payables	78.2	57.7	35.1	11.8
Non trade payables and accruals	128.0	139.1	127.7	138.5
Accruals	217.2	197.9	152.6	143.5
Payments received in advance	118.2	97.0	82.8	76.1
Other payables	32.8	38.6	1.9	1.6
Deferred income	2.8	5.7	1.6	1.6
Other taxes and social security	5.7	5.3	5.2	4.9
Amounts due to subsidiaries	-	-	59.7	58.9
	582.9	**541.3**	**466.6**	**436.9**
Non-current				
Payments received in advance	94.7	82.0	75.5	68.4
Deferred income	15.0	22.7	7.5	13.4
	109.7	**104.7**	**83.0**	**81.8**

The fair values of trade and other payables are not different from those disclosed above.

16 Deferred taxation

The following are the deferred tax liabilities and assets recognised by Scottish Water and the movements thereon during the current and prior reporting periods:

	Note	Accelerated capital allowances £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
Group						
At 1 April 2023		710.2	6.8	(8.4)	(19.8)	688.8
Charge/(credit) to income statement	8	58.2	0.1	(47.1)	(2.0)	9.2
Charge to reserves	8, 22	-	(12.1)	-	-	(12.1)
At 31 March 2024		768.4	(5.2)	(55.5)	(21.8)	685.9
Charge/(credit) to income statement	8	106.9	0.9	(70.8)	2.4	39.4
Charge to reserves	8, 22	-	(12.8)	-	-	(12.8)
At 31 March 2025		**875.3**	**(17.1)**	**(126.3)**	**(19.4)**	**712.5**
Company						
At 1 April 2023		709.6	6.2	(8.5)	(18.8)	688.5
Charge/(credit) to income statement	8	58.0	0.2	(46.3)	(2.2)	9.7
Charge to reserves	8, 22	-	(11.6)		-	(11.6)
At 31 March 2024		767.6	(5.2)	(54.8)	(21.0)	686.6
Charge/(credit) to income statement	8	106.3	1.0	(70.5)	1.1	37.9
Charge to reserves	8, 22	-	(12.9)	-	-	(12.9)
At 31 March 2025		**873.9**	**(17.1)**	**(125.3)**	**(19.9)**	**711.6**

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16 Deferred taxation (continued)

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Deferred tax assets	(1.9)	(3.0)	-	-
Deferred tax liabilities	714.4	688.9	711.6	686.6
At 31 March 2025	**712.5**	**685.9**	**711.6**	**686.6**

The Members believe that the deferred tax assets will be recoverable against projected taxable profits over the foreseeable future in the companies to which they relate.

Accelerated capital allowances arise when there are temporary differences between the net book values of qualifying tangible assets in the accounts and their equivalent tax written down values. In the Group's case, there is a deferred tax liability because the amount of capital allowances is in excess of deprecation. This liability will be released over the useful lives of the relevant qualifying assets, increasing tax payable in future years, as total capital allowances claimed and accumulated accounting depreciation will eventually equal one another over time. However, due to the long estimated useful lives of the Group's qualifying assets, the Group's ongoing capital investment and the availability of full expensing, it is expected that the total accelerated capital allowances liability is likely to increase, or at least remain similar, for a number of years.

The tax adjustments taken to other comprehensive income primarily relate to remeasurement movements on the group's funded defined benefit pension schemes and the remeasurement movements on the unfunded liability. Given the fully funded position of the pension funds, the retirement benefit obligations primarily relate to deferred taxation on the pension funds' surplus positions but then this is offset with the unfunded liability (Note 22). The amount is significantly impacted by financial market conditions and long-term inflation expectations and therefore it is difficult to forecast future movements. Associated deferred tax balances will be adjusted on an ongoing basis over the life of the pension funds.

Deferred tax on retirement benefit obligations can also arise where there are year-on -year differences between the contributions paid and the associated amounts charged to the Income Statement. However, given the fully funded position of the Group's pension funds any such deferred tax movements are not expected to be significant at least until the next pension fund triennial valuations at March 2026.

Tax losses from earlier periods can be carried forward and relieved against future profits. The Group recognises a deferred tax asset as it expects to utilise these brought forward losses against taxable profits by the end of the next regulatory period.

'Other' deferred tax balances arise due to additional temporary timing differences between when income or expenses are recognised in the accounts and when they are allowed for tax purposes. An example would be general provision movements, where tax relief is only given when the balance is utilised specifically rather than when the accounting expense is incurred. The Group expects this deferred tax balance to unfold incrementally although it is difficult to estimate an exact time period in which this will occur.

No deferred income tax is provided on temporary differences arising on investments in subsidiaries because, in each case, the timing of the reversal of the temporary difference is controlled by Scottish Water and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised is £193.8m (2024: £183.1m) for both the Company and the group. No tax is expected to be payable in this regard.

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17 Provisions for liabilities

	Income uncertainty provision £m	Restructure and other provision £m	Total £m
Group			
At 1 April 2023	20.5	0.8	21.3
Charged to the income statement	1.4	0.3	1.7
Utilised during the year	(3.0)	(0.3)	(3.3)
At 31 March 2024	18.9	0.8	19.7
Charged to the income statement	4.1	0.6	4.7
Utilised during the year	(5.2)	(0.3)	(5.5)
At 31 March 2025	**17.8**	**1.1**	**18.9**
Company			
At 1 April 2023	23.5	0.4	23.9
Charged to the income statement	5.1	0.2	5.3
Utilised during the year	(2.3)	(0.3)	(2.6)
At 31 March 2024	26.3	0.3	26.6
Charged to the income statement	4.6	0.2	4.8
Utilised during the year	(7.8)	(0.2)	(8.0)
At 31 March 2025	**23.1**	**0.3**	**23.4**

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Analysis of total provisions				
Current	11.2	11.7	14.1	16.0
Non-current	7.7	8.0	9.3	10.6
	18.9	**19.7**	**23.4**	**26.6**

The income uncertainty provision relates to non-household revenues. The reconciliation process, through the Central Market Agency (CMA), relating to each financial year will normally be finalised 18 months after the end of the relevant financial year. It is expected that the provision will be utilised over 2025 and 2026.

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18 Other loans and borrowings

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Current				
Obligations under finance leases - PFI	21.3	23.6	21.3	23.6
Obligations under finance leases - Other	3.4	-	2.9	-
	24.7	**23.6**	**24.2**	**23.6**
Non current				
Obligations under finance leases - PFI	108.8	130.0	108.8	130.0
Obligations under finance leases - Other	16.3	-	12.2	-
	125.1	**130.0**	**121.0**	**130.0**
Total				
Obligations under finance leases - PFI	130.1	153.6	130.1	153.6
Obligations under finance leases - Other	19.7	-	15.1	- -
	149.8	**153.6**	**145.2**	**153.6**

(i) Finance lease liabilities – PFI liabilities

Group and Company

Future finance lease commitments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2025 £m	2024 £m	2025 £m	2024 £m
Amounts payable:				
Within one year	29.0	32.7	21.3	23.6
Between one and 5 years	93.0	105.4	84.6	95.8
After 5 years	42.0	58.4	24.2	34.2
Present value of minimum lease payments including finance charges	164.0	196.5		
Less future finance charges	(33.9)	(42.9)		
Present value of minimum lease payments	130.1	153.6	130.1	153.6

PFI - Service concession arrangements
Upon its creation in April 2002 Scottish Water inherited 9 concession contracts which had been entered into with 9 private sector consortia (PFI Cos) by its 3 predecessor authorities (i.e. East of Scotland Water Authority, North of Scotland Water Authority and West of Scotland Water Authority).

During the year ended 31 March 2023 both the Aberdeen and Highland PFI sites were absorbed into the regulated activities of Scottish Water. Scottish Water acts as the client body to the 7 remaining private sector consortia that provide waste water and sludge treatment and disposal services to Scottish Water.

Characteristics of the arrangements

Description
The length of these contracts varies between 25 and 40 years with the longest expiring in October 2040. Under the terms of these contracts the private sector have either upgraded or built new waste water and sludge treatment assets, and, in certain circumstances, network assets (e.g. sewers and pumping stations) in order to meet Scottish Water's legal obligations in respect of the treatment and disposal of these products. These consortia are also responsible for the operation and maintenance of these assets over the lifetime of each contract.

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18 Other loans and borrowings (continued)

Significant terms

The key terms relate to the basis upon which Scottish Water pays for the services provided by the PFI Cos. The levels of such payments are predominantly dependent upon the volume of waste water and sludge treated, although in a minority of contracts there is either a partial availability payment element or some part of the payment is linked to the strength of the waste water. Scottish Water also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated waste water.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations

Scottish Water's primary obligations are to deliver waste water to the PFI Cos and thereafter pay for the treatment services provided, making the appropriate deduction where the PFI Cos fail to meet the appropriate performance standards. The PFI Cos provided the initial construction services through a sub-contract and also entered into a separate sub-contract for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are now in their operational phase.

A majority of the contracts have limited extension options. However, termination during the contractual period can arise for a number of reasons including default (by either the PFI Co or Scottish Water), force majeure, uninsurable events or voluntary termination by Scottish Water. Each contract contains a formula from which termination compensation payable by Scottish Water is derived.

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of handback conditions linked to the remaining life of certain assets.

(ii) Finance lease liabilities - Other

Under IFRS 16, a lease is defined as a contract or part of a contract that conveys the right to use an asset (the "underlying asset") for a period of time in exchange for consideration. The standard came into effect on 1 January 2019 for the subsidiary companies and has been in effect for Scottish Water since 1 April 2024. IFRS 16 replaces the previous lease accounting standard, IAS 17.

The leases in place for Scottish Water Group include:
- Buildings: offices, warehouse and depots - disclosed in Non-specialised operational properties.
- Vehicles: company cars and vans - disclosed in Plant, machinery and vehicles.
- Other: pumping stations, water and waste water treatment works - disclosed in Specialised operational properties and structures.

a. Right of Use Assets

Disclosed in Note 9

b. Lease Liabilities

Set out below is the carrying amount of lease liabilities recognised at the Balance sheet date

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Within one year	3.7	-	3.2	-
Between one and five years	7.6	-	6.4	-
Over five years	20.5	-	17.7	-
Total undiscounted lease liabilities	**31.8**	**-**	**27.3**	**-**
Lease liabilities included in the statement of financial position at 31 March 2025	19.7	-	15.1	-

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18 Other loans and borrowings (continued)

c. Amounts recognised in comprehensive income

The Group has presented interest expenditure on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expenditure on the lease liability is a component of finance costs, which is presented separately in the Income Statement and SOCI.

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Finance Costs		0.8	-	0.6	-
Depreciation Charges	9	3.6	-	3.0	-
		4.4	**-**	**3.6**	**-**

The Group has classified short term-lease payments (less than 12 months) and payments for leases of low-value (assets under £1,000) as operating activities. Seventy one leases have been classified into these categories with a total value of £154,000 and is shown by category in the table below.

	Group		Company	
	2025 £000	2024 £000	2025 £000	2024 £000
Expenses relating to short-term leases	130	-	130	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	24	-	24	-
	154	**-**	**154**	**-**

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19 Government loans

	Group and Company	
	2025 £m	2024 £m
Government loans	4,874.4	4,704.4

Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002.

Government loans, both short and long-term, are recorded on the statement of financial position under Capital and Reserves in accordance with the Scottish Water Governance Directions. Other debt is recorded under short and long-term payables following best practice.

a. Analysis of borrowings by type and maturity

Group and company	Up to 1 year £m	1-2 years £m	3-5 years £m	6-10 years £m	Over 10 years £m	Total £m
Scottish Consolidated Fund	98.0	103.6	348.7	487.7	3,554.2	4,592.2
National Loans Fund	25.0	35.0	105.0	105.0	2.5	272.5
Public Works Loan Board	4.4	2.0	1.3	1.6	0.4	9.7
At 31 March 2025	**127.4**	**140.6**	**455.0**	**594.3**	**3,557.1**	**4,874.4**
At 31 March 2024	168.6	127.4	308.7	598.2	3,501.5	4,704.4

b. Fair values

The carrying amounts and fair value of the Government borrowings are as follows:

	Book value	Book value	Fair value	Fair value
	2025 £m	2024 £m	2025 £m	2024 £m
Scottish Consolidated Fund	4,592.2	4,339.1	3,213.6	3,281.3
National Loans Fund	272.5	354.9	295.6	388.5
Public Works Loan Board	9.7	10.4	10.8	12.1
	4,874.4	**4,704.4**	**3,520.0**	**3,681.9**

20 Analysis of net debt

	Note	As at 1 April 2024 £m	Decrease in cash £m	Increase in debt £m	As at 31 March 2025 £m
Group					
Cash and cash equivalents	14	362.1	(92.2)	–	269.9
Government loans	19	(4,704.4)	–	(170.0)	(4,874.4)
Net debt		**(4,342.3)**	**(92.2)**	**(170.0)**	**(4,604.5)**
Company					
Cash and cash equivalents	14	280.2	(143.8)	–	136.4
Government loans	19	(4,704.4)	–	(170.0)	(4,874.4)
Net debt		**(4,424.2)**	**(143.8)**	**(170.0)**	**(4,738.0)**

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21 Retained earnings reserve

	Note	Retained earnings excluding actuarial gains/(losses) £m	Actuarial gains/ (losses) on pension obligations £m	Retained earnings including actuarial gains/(losses) £m
Group				
At 1 April 2023		1,701.3	162.4	1,863.7
Retained surplus for the year		39.3	–	39.3
Actuarial loss net of deferred taxation	22	–	(36.2)	(36.2)
At 31 March 2024		**1,740.6**	**126.2**	**1,866.8**
Retained surplus for the year		51.1	–	51.1
Actuarial loss net of deferred taxation	22	–	(38.2)	(38.2)
At 31 March 2025		**1,791.7**	**88.0**	**1,879.7**
Company				
At 1 April 2023		1,535.1	154.8	1,689.9
Retained surplus for the year		26.4	–	26.4
Actuarial loss net of deferred taxation	22	–	(34.5)	(34.5)
At 31 March 2024		**1,561.5**	**120.3**	**1,681.8**
Retained surplus for the year		35.6	–	35.6
Actuarial loss net of deferred taxation	22	–	(38.5)	(38.5)
At 31 March 2025		**1,597.1**	**81.8**	**1,678.9**

22 Pensions

Employees of Scottish Water participate in the North East Scotland Pension Fund, the Lothian Pension Fund and the Strathclyde Pension Fund, which are part of the Scottish Local Government Pension Scheme administered by Aberdeen, Edinburgh and Glasgow City Councils respectively. The schemes provide defined benefits based on career average pensionable pay. Actual pension costs for the year for each fund as a % of pensionable pay, were 14.3% (2024:18.2%), 17.6% (2024 : 20.7%) and 10.2% (2024 : 19.3%) respectively.

Scottish Water has an unfunded liability relating to benefits provided to some employees taking voluntary redundancy between 1996 and 2007, over and above those provided by the three pension funds. This unfunded liability was charged to the Income Statement when the awards were made. However, there are no investment assets built up to meet the unfunded liabilities and cash must be generated to meet actual pension payments as they fall due.

The principal risks to Scottish Water impacting the pension liability are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the three funds. These are mitigated to a certain extent by the statutory requirements to charge to the Consolidated Income Statement any increase in the present value of liabilities expected to arise from employee service in the period and the net interest cost as described in the accounting policies note.

Employee pension contributions are determined according to the level of an employee's full-time equivalent pensionable pay. A key feature of the pension arrangements is that contribution rates are applied in tiers ranging from 5.5% to 12% depending on the employee's rate of pensionable pay on 31 March. It is anticipated that this approach to employees' contribution rates will ultimately result in a 2:1 ratio between Scottish Water's contributions and employees' contributions in a fully funded scheme.

A full actuarial valuation was carried out at 31 March 2023 for all 3 funds and updated at 31 March 2025 by a qualified independent actuary, to take account of the requirements of IAS 19.

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22 Pensions (continued)

The major assumptions used by the actuaries were:

	2025 %	2024 %
Long Term rate of increase in pensionable salaries	3.75	2.80
Rate of increase in pensions payment	2.75	2.80
Discount rate	5.80	4.80
CPI inflation rate	2.75	2.80

Actual asset returns for period from 1 April 2024 to 31 March 2025	
North East Scotland Pension Fund	3.20%
Lothian Pension Fund	2.75%
Strathclyde Pension Fund	3.50%

The weighted average duration of the funded defined benefit obligation for scheme members is 17.6 years (2024: 17.2 years)

The mortality assumptions used to calculate the scheme liabilities as at 31 March 2025 are consistent with those used for the actuarial valuations of the Funds at 31 March 2023 with the exception of the longevity improvement tables, which have been updated to allow for the latest longevity available.

The average future life expectancies at age 65 are shown in the table below:

	North East Scotland Years	Lothian Years	Strathclyde Years
Retiring at 31 March 2025			
Male	20.9	20.6	20.1
Female	23.3	23.1	22.2
Retiring at 31 March 2045			
Male	22.3	22.0	21.1
Female	25.0	25.3	24.9

The sensitivities regarding the principal assumptions used to measure the liability in the Funds for the Group at 31 March 2025 are:

Assumption	Change in assumption	Approximate Impact on IAS 19 liabilities	Approximate Impact on IAS 19 asset
Rate of increase in pensionable salaries	+/- 0.1% per annum	Increase / decrease by c. 0.30%	Decrease / increase by c. £4m
Discount rate	+/- 0.1% per annum	Decrease / increase by c. 1.71%	Increase / decrease by c. £23m
CPI Inflation rate	+/- 0.1% per annum	Increase / decrease by c. 1.52%	Decrease / increase by c. £21m
Longevity	Increase life expectancy by 1 year	Increase by c. 3.00%	Decrease by c. £41m

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

22 Pensions (continued)

Scottish Water's share of the assets in the schemes and the expected rate of return were:

	Note	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
Total fair value of assets		2,377.8	2,335.2	2,322.0	2,281.4
Present value of scheme liabilities		(1,292.9)	(1,495.4)	(1,264.3)	(1,460.1)
Gross pension asset		**1,084.9**	**839.8**	**1,057.7**	**821.3**
Adjustment in respect of asset not recognised		(1,084.9)	(784.2)	(1,057.7)	(765.7)
Pension asset recognised		**-**	**55.6**	**-**	**55.6**
Related deferred tax liability	16	-	(13.9)	-	(13.9)
Net Funded pension asset		-	41.7	-	41.7
Unfunded Pension Liability		**(68.4)**	**(76.4)**	**(68.4)**	**(76.4)**
Related deferred tax liability	16	17.1	19.1	17.1	19.1
Net Unfunded pension liability		(51.3)	(57.3)	(51.3)	(57.3)

Assets are valued at fair value. Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value.

Reconciliation of opening and closing retirement benefit liabilities and assets:

	Note	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
Movements in liabilities during the year:					
Opening value of total liabilities		(1,571.8)	(1,545.3)	(1,536.5)	(1,513.9)
Total service cost	5	(31.4)	(34.3)	(30.8)	(33.3)
Interest on pension scheme liabilities	7	(74.6)	(72.8)	(72.9)	(71.3)
Contributions by members		(12.7)	(11.5)	(12.5)	(11.2)
Actuarial gain		247.9	19.8	239.1	21.5
Benefits paid		75.1	66.3	74.7	65.7
Unfunded benefits paid		6.2	6.0	6.2	6.0
Closing value of total liabilities		**(1,361.3)**	**(1,571.8)**	**(1,332.7)**	**(1,536.5)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

22 Pensions (continued)

	Note	2025 £m	2024 £m	2025 £m	2024 £m
Movement in assets during the year:					
Opening fair value of total assets		2,335.2	2,141.0	2,281.4	2,093.9
Interest on pension scheme assets	7	73.0	73.5	71.3	71.9
Contributions by members		12.7	11.5	12.5	11.2
Contributions by the employer[1]		30.0	27.9	29.8	27.3
Contributions in respect of unfunded benefits		6.4	6.1	6.4	6.1
Actuarial gain		1.8	147.5	1.5	142.7
Benefits paid		(75.1)	(66.3)	(74.7)	(65.7)
Unfunded benefits paid		(6.2)	(6.0)	(6.2)	(6.0)
Closing fair value of assets		**2,377.8**	**2,335.2**	**2,322.0**	**2,281.4**
Gross surplus in the schemes at 31 March		**1,016.5**	**763.4**	**989.3**	**744.9**
Adjustment in respect of asset not recognised		(1,084.9)	(784.2)	(1,057.7)	(765.7)
Recognised gross deficit in the schemes at 31 March		**(68.4)**	**(20.8)**	**(68.4)**	**(20.8)**
Being:					
Funded Pension asset recognised		-	55.6	-	55.6
Unfunded Pension Liability		(68.4)	(76.4)	(68.4)	(76.4)
Net Pension deficit		**(68.4)**	**(20.8)**	**(68.4)**	**(20.8)**

[1]Company contributions by the Employer of £27.3m in respect of financial year 2024/25 and £29.8m in respect of financial year 2025/26 were prepaid to the pension funds in March 2024 and March 2025 respectively.

Virgin Media / Section 37 legal ruling.

In June 2023, the UK High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment was subject to appeal, and the Court of Appeal heard the arguments on 26 and 27 June 2024. On 25 July 2024, the Court dismissed the appeal. .

The Local Government Pension Scheme is a contracted out defined benefit scheme and amendments have been made during the period 1996 to 2016 which could impact member benefits. Work is being performed by the Government Actuary's Department as the Local Government Pension Scheme actuary to assess whether Section 37 certificates are in place for all amendments and some of these have been confirmed. However, at the date of these financial statements, the full assessment is not complete. Until this analysis is complete, we are unable to conclude whether there is any impact on the assessed actuarial present value of promised retirement benefits under IAS 26, or if it can be reliably estimated. As a result, Scottish Water does not consider it necessary to make any allowance for the potential impact of the Virgin Media case in the disclosure of the actuarial present value of promised retirement benefits in its financial statements.

Return on assets

As required by IAS 19, the expected return on assets for all asset categories is equal to the discount rate. It is assumed that assets with higher volatility will no longer generate higher returns.

	Note	Group 2025 £m	Group 2024 £m	Company 2025 £m	Company 2024 £m
Actual return on pension scheme assets		74.8	221.0	72.8	214.6
Actuarial (loss)/gain in other comprehensive income in the consolidated statement of comprehensive income					
Variance between pension fund actuarial assumptions					
and actual experience		249.7	167.3	240.6	164.2
Adjustment in respect of asset not recognised		(300.7)	(215.6)	(292.0)	(210.3)
Gross actuarial loss recognised in the pension fund		(51.0)	(48.3)	(51.4)	(46.1)
Deferred tax movement	16	12.8	12.1	12.9	11.6
Net actuarial loss recognised in other comprehensive income in the consolidated statement of comprehensive income	21	**(38.2)**	**(36.2)**	**(38.5)**	**(34.5)**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

22 Pensions (continued)

Amounts recognised in the consolidated income statement

		Group		Company	
	Note	2025 £m	2024 £m	2025 £m	2024 £m
Total service cost	5	31.4	34.3	30.8	33.3
Interest on pension scheme	7	1.6	(0.7)	1.6	(0.6)
		33.0	**33.6**	**32.4**	**32.7**

There were no (2024: nil) unpaid contributions outstanding at the year end included in other payables (note 15). It is estimated that Scottish Water will make contributions of £6.3 million to the pension funds in financial year 2025/26.

History of experienced gains and losses

	2025 £m	2024 £m
Group		
Difference between the expected and actual return on scheme assets:		
Amount reflecting the gain on investment performance	1.8	88.1
Amount reflecting experience gains on scheme assets	-	59.4
Fair value of assets	2,377.8	2,335.2
Experience losses on scheme liabilities:		
Amount	14.2	(12.5)
Present value of liabilities	1,361.3	1,571.8
Changes in demographic assumptions underlying the present value of scheme liabilities:		
Amount	3.4	5.5
Changes in financial assumptions underlying the present value of scheme liabilities:		
Amount	230.3	26.8
Adjustment in respect of asset not recognised	(300.7)	(215.6)
Total variance between pension fund actuarial assumptions and actual experience	**(51.0)**	**(48.3)**
Gross surplus in the schemes at 31 March	1,016.5	763.4
Adjustment in respect of asset not recognised	(1,084.9)	(784.2)
Recognised gross deficit in the schemes at 31 March	**(68.4)**	**(20.8)**
Being:		
Funded Pension asset recognised	-	55.6
Unfunded Pension Liability	(68.4)	(76.4)
	(68.4)	**(20.8)**

NOTES TO THE FINANCIAL STATEMENTS
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22 Pensions (continued)

	2025 £m	2024 £m
Company		
Difference between the expected and actual return on scheme assets:		
Amount reflecting the gain on investment performance	1.5	85.5
Amount reflecting experience gains on scheme assets	-	57.2
Fair value of assets	2,322.0	2,281.4
Experience losses on scheme liabilities:		
Amount	13.8	(8.8)
Present value of liabilities	1,332.7	1,536.5
Changes in demographic assumptions underlying the present value of scheme liabilities:		
Amount	3.4	4.9
Changes in financial assumptions underlying the present value of scheme liabilities:		
Amount	221.9	25.4
Adjustment in respect of asset not recognised	(292.0)	(210.3)
Total variance between pension fund actuarial assumptions and actual experience	**(51.4)**	**(46.1**
Gross surplus in the schemes at 31 March	989.3	744.9
Adjustment in respect of asset not recognised	(1,057.7)	(765.7)
Recognised gross deficit in the schemes at 31 March	**(68.4)**	**(20.8)**
Being:		
Funded Pension asset recognised	-	55.6
Unfunded Pension Liability	(68.4)	(76.4)
	(68.4)	**(20.8)**

An actuarial gain of £249.7 million has been calculated resulting in a funded pension asset of £1,084.9 million at 31 March 2025 and an unfunded liability of £68.4 million. The pension asset is as a result of a higher discount rate, lower expectation of long term CPI growth and higher asset returns than forecast at 31 March 2024.

To comply with IFRIC 14 and IAS 19 the pension asset is restricted to reflect the amount the employer is entitled to as an unconditional refund of the surplus or reduction in future contributions to the pension fund. Management review of the Local Government Pension Scheme regulations concluded that there are no likely circumstances which would result in the Employer having an unconditional right to a refund in the event of a fund surplus. Actuarial advice was sought in relation to the benefit to the Employer in the form of reduced future contributions. IAS 19 defined this to be the present value of future service costs, less the present value of projected future contributions (in respect of benefit accrual). If this is positive then this is the maximum value of the pension asset that the Employer can recognise. No asset is recognised in respect of North East Scotland Pension Fund, Lothian pension Fund or Strathclyde Pension Fund for Scottish Water or Scottish Water Business Stream.

As such the full funded pension asset of £1,084.9 million is not recognised but is restricted by £1,084.9 million to a funded pension asset of nil with an actuarial loss of £51.0 million.

In addition an unfunded liability of £68.4 million is recognised as a non current liability.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

23 Commitments

a. Capital commitments

Scottish Water has contracted capital commitments of £787.5 million (2024: £747.4 million) relating to property, plant and equipment at the statement of financial position date. These commitments are expected to be settled within the following four financial years.

24 Contingent assets and liabilities

Contingent liabilities

Scottish Water has the following contingent liabilities in respect of companies limited by guarantees:

Central Market Agency

The Central Market Agency (CMA), a company limited by guarantee, co-ordinates the non household retail market for business customers in Scotland. As a market participant, Scottish Water is liable to pay charges to the CMA to cover part of the operating, financing and any other capital costs of the organisation. These charges are set annually in advance and approved by the CMA Board. Scottish Water's liability, as a member, for the debts and liabilities of the CMA is limited to £1.

Water Regulatory Advisory Service

Water Regulatory Advisory Service Limited (WRAS) is a company established by all UK water companies as a company limited by guarantee to provide guidance on the development and application of the Water Regulations (England and Wales) and the Water Byelaws (Scotland). WRAS operates on a subscription basis. Scottish Water's liability, as a member, in the event of the company going into default, is limited to £1. Scottish Water may withdraw from the company by giving one year's notice.

25 Related party transactions

Scottish Water has related party relationships with the Scottish Government, with its subsidiaries (note 11), and with its Members and Executive Management. Details of transactions between the group and other related parties are disclosed below.

Scottish Government

Scottish Water is a public corporation of a trading nature sponsored by the Scottish Government. During the year Scottish Water had various material transactions with the Scottish Government, namely the drawdown and repayment of loans and associated interest charges. Details of the loans from the Scottish Government are shown in note 19.

During the year Scottish Water had various material transactions with entities for which the Scottish Government is regarded as the parent. The main entities which fall into this category are the Local Authorities, the Scottish Environment Protection Agency, the Drinking Water Quality Regulator, the Water Industry Commission for Scotland and the Central Market Agency. However, as permitted under IAS 24 'Related Party Disclosures' paragraph 25, Scottish Water is exempt from the disclosure requirements of IAS 24, paragraph 18 in respect of these government related entities.

NOTES TO THE FINANCIAL STATEMENTS
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25 Related party transactions (continued)

Subsidiaries

During the year Scottish Water entered into the following transactions with its subsidiaries (note 11):

	2025 £m	2024 £m
Wholesale water and waste water services to Business Stream	217.9	206.6
Sale of waste water services to other subsidiaries	0.7	0.8
Purchase of waste water services from other subsidiaries	(1.3)	(1.6)
Seconded staff costs charged to subsidiaries	7.4	7.4
Other operating costs charged to subsidiaries	1.5	1.4
Purchase of renewable development and vesting services	(2.3)	(2.9)

Key management personnel

The key management under IAS 24 'Related Party Disclosure' is defined as those persons who have authority and responsibility for planning, directing and controlling the entity's activities, directly or indirectly. Scottish Water's key management comprises the Executive Members and Non-executive Members. The remuneration of the Members is determined by Scottish Water's Remuneration Committee in accordance with its stated policy. Further information about the remuneration and pension details of individual Members is provided in the Members' Remuneration Report on pages 95 to 107. Scottish Water's non-executive members hold additional roles within other organisations (see Members on pages 83 to 85).

26 Financial instruments and risks

The management of Scottish Water and the execution of strategy are subject to a number of risks as detailed below. All risks are reviewed by the Board and appropriate processes are in place to monitor and mitigate them. See the Strategic report on pages 14 to 82 and Corporate Governance report on pages 86 to 89.

a. Qualitative risk disclosures

Credit risk

Credit risk is the risk that Scottish Water is exposed to loss if another party fails to perform its financial obligation to Scottish Water. Credit risk arises from cash, cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. Scottish Water monitors its credit exposure to its counterparties via their credit ratings (where applicable) and through its policy, thereby limiting its exposure to any one party to ensure that they are within Board approved limits and that there are no significant concentrations of credit risk. The maximum exposure to credit risk for receivables and other financial assets is represented by their carrying amount.

Liquidity risk

Liquidity risk is the risk that Scottish Water will have insufficient funds to meet its liabilities. Scottish Water's policy is to ensure that it has access to adequate financial resources to enable it to finance its day-to-day operations and capital investment programme, based on cash flow projections, while adhering to the annual limits set by the Scottish Government for new borrowings. Scottish Water's borrowing powers are defined in Section 42 of the Water Industry (Scotland) Act 2002.

Interest rate risk

All of Scottish Water's Government borrowings are at fixed interest rates. Therefore Scottish Water is not deemed to bear any interest rate risk.

Currency risk

In special circumstances, Scottish Water may use financial instruments to mitigate certain financial risk exposures such as foreign exchange fluctuations. As such circumstances are rare, in addition to the approval of the Scottish Water Board, approval is required from Scottish Ministers under the terms of section 42(3)(b) Water Industry (Scotland) Act 2002.

b. Categories of financial assets and liabilities and fair values

Scottish Water's financial assets and liabilities comprise trade and other receivables (note 13), cash and cash equivalents (note 14), borrowings (notes 18 and 19) and trade and other payables (note 15). No trading in derivative financial instruments was undertaken.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

26 Financial instruments and risks (continued)

Basis of determining fair value

The financial assets and liabilities of Scottish Water are classified as held at amortised cost.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing partners, other than in a forced or liquidation sale, and excludes accrued interest.

The carrying amounts of financial assets and liabilities, excluding borrowings, are equal to their fair values. Borrowings are held at cost in the statement of financial position but the fair value is disclosed in notes 18 and 19.

Credit risk

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

The trade receivables total includes an allowance for impairment. Trade receivables comprise receivables from business customers and receivables from domestic household customers.

	Group		Company	
	2025 £m	2024 £m	2025 £m	2024 £m
Trade receivables:				
Trade receivables	765.8	726.1	582.5	554.4
Less provision for impairment of trade receivables	(533.4)	(521.0)	(488.5)	(477.4)
Net trade receivables	232.4	205.1	94.0	77.0
The following table shows the development of the provision for impairment of trade receivables:				
Balance at 1 April	521.0	516.5	477.4	466.2
Charge for the year	36.5	24.7	19.0	20.9
Amounts written down during the year	(24.1)	(20.2)	(7.9)	(9.7)
Balance at 31 March	533.4	521.0	488.5	477.4
Trade receivables is analysed between:				
Household receivables	559.3	529.5	559.3	529.5
Less provision for impairment	(485.5)	(474.4)	(485.5)	(474.4)
Net household receivables	73.8	55.1	73.8	55.1
Business customer receivables	206.5	196.6	23.2	24.9
Less provision for impairment	(47.9)	(46.6)	(3.0)	(3.0)
Net business customer receivables	158.6	150.0	20.2	21.9

Household water and waste water services are billed to customers by the 32 Councils as an element of the annual Council Tax bills. The Councils are responsible for the collection and transfer to Scottish Water of the amounts due in accordance with the statutory regulations for which Scottish Water pays a cost of collection charge. Household charges are billed by individual financial year and are payable within the same year. Provision is made against outstanding debt, in respect of prior years, based primarily on historical collection rates and the near-term business outlook. Household water and waste water debt is a statutory debt recoverable from the occupier by the Councils. Debt since the establishment of the former Water Authorities in 1996 continues to be collected. As at 31 March 2025 trade receivables in respect of household customers totalled £559.3 million with a provision of £485.5 million (2024: £529.5 million and £474.4 million respectively).

The sensitivities regarding the principal assumptions used to measure the level of the household bad debt provision are:

Assumption	Change in assumption %	Approximate impact on bad debt charge £m
Overall household collection rate	+/- 0.05%	Increase / decrease by c. £10.1m
In-year household bad debt provision charge	+/- 0.10%	Increase / decrease by c. £1.2m

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

26 Financial instruments and risks (continued)

As at 31 March 2025 trade receivables from business customers totalled £206.5 million (2024: £196.6 million). The ageing analysis of trade receivables from business customers and the related provisioning is as follows:

	Total £m	Current £m	< 3 months overdue £m	3-12 months overdue £m	> 12 months overdue £m
Group					
Gross receivable	206.5	77.3	53.0	42.9	33.3
Provision	(47.9)	(2.5)	(3.7)	(9.7)	(32.0)
Net trade receivable as at 31 March 2025	158.6	74.8	49.3	33.2	1.3
Gross receivable	196.6	64.6	51.3	45.3	35.4
Provision	(46.6)	(1.1)	(3.4)	(9.1)	(33.0)
Net trade receivable as at 31 March 2024	150.0	63.5	47.9	36.2	2.4

	Total £m	Current £m	< 3 months overdue £m	3-12 months overdue £m	> 12 months overdue £m
Company					
Gross receivable	23.2	17.9	0.6	1.8	2.9
Provision	(3.0)	–	(0.1)	(0.6)	(2.3)
Net trade receivable as at 31 March 2025	20.2	17.9	0.5	1.2	0.6
Gross receivable	24.9	19.9	0.4	1.4	3.2
Provision	(3.0)	–	(0.1)	(0.6)	(2.3)
Net trade receivable as at 31 March 2024	21.9	19.9	0.3	0.8	0.9

27 Ultimate controlling body

Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.

28 Regulatory information

The Water Industry Commission for Scotland (WICS) has the general function of promoting interests of customers in relation to the provision of core services. The WICS determines Scottish Water's price limits and approves Scottish Water's annual charges scheme.

The WICS monitors Scottish Water's performance on efficiency and customer service and approves the code of practice. Each year the WICS publishes reports on the exercise of its functions. In preparing these reports, the WICS assesses the performance by using information supplied by Scottish Water and by making comparisons with information obtained on other regulated water companies. In carrying out this performance monitoring, the WICS may make regulatory amendments to figures published in Scottish Water's audited financial statements to ensure like for like comparisons with other companies.

29 Events after the reporting period

On the 16 May 2025, Scottish Water Horizons Limited concluded the sale of its anaerobic digestion (AD) plant, classified as held for sale at the balance sheet date (31 March 2025) (Note 9). Total sale proceeds were £4.0 million less direct costs of sale of £0.9 million, equivalent to the fair value of the asset presented in note 9 of the financial statements.

DIRECTION BY THE SCOTTISH MINISTERS
IN ACCORDANCE WITH SECTION 45(2) OF THE WATER INDUSTRY (SCOTLAND) ACT 2002

Under the Scottish Water Governance Directions 2009, which are available on the Scottish Government website, Scottish Water is required to disclose details of certain types of expenditure which exceed given thresholds and which are not disclosed elsewhere in the Annual Report and Accounts. The required information is presented in the following table:

Project expenditure	Threshold	Project	Cost
Capital expenditure on major works including improvements to existing assets	£10 million	Perth Water Infrastructure Perth Waste Water Infrastructure Glenfarg Water Treatment Works Eela Water Treatment Works Enterprise Asset Management	£20,747,407 £12,012,055 £12,004,192 £13,219,813 £18,631,954
Purchase of individual capital items, including land, with a life of more than one year	£1 million	None	–
Advertising	£1 million	None	–
Sponsorship	£10,000	Scottish Amateur Swimming Association COSLA Excellence Awards 2024	£250,000 £10,000
Gifts	£200	None	–

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