Scottish Water
Trusted to serve Scotland

2025/26 ANNUAL REPORT AND ACCOUNTS PERFORMANCE AND PROSPECTS

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Photo of Cameron Reservoir in Fife taken by Jimmy Will, one of our water treatment operators. It also features Liam Dow, who works in our Specialist Service Delivery planning team. Read about why he wanted to appear in our campaigns:

CHAIR'S STATEMENT
DEIRDRE MICHIE OBE

Operating in a changing world

The environment in which Scotland's essential services operate is becoming more uncertain and more complex. Climate change is reshaping weather patterns, economic volatility is affecting costs and supply chains, and expectations on public services continue to rise. These pressures are structural and long term.

For Scottish Water, this reinforces the importance of strong governance, careful planning and sustained investment. Water and wastewater services underpin public health, economic prosperity and environmental protection.

The Board's responsibility is therefore both immediate and long term: ensuring reliable services today while safeguarding those services for future generations.

Global water pressures and Scotland's position

The global context for water is also changing rapidly with climate change no longer a distant risk - it is reshaping the conditions in which essential infrastructure operates today. The Global Tipping Points Report (2025) is highlighting that the world is entering a "danger zone", with warming approaching 1.5°C and some climate tipping points having potentially already been crossed. These include impacts to ice systems and to major ocean circulation – at increasing risk.

What is increasingly clear is that these hazards do not occur in isolation. They are interconnected and cascade across systems, amplifying their impact on water availability, flooding, drought and economic resilience.

Increasingly, climate impacts are being experienced not as single events, but as connected and compounding pressures. Prolonged drought can quickly be followed by intense rainfall, flooding and storm damage, placing strain on infrastructure, communities, food production and supply chains. Events occurring elsewhere in the world are also increasingly interconnected with daily life in Scotland. Even as a water-rich nation, Scotland is not insulated from pressures affecting food availability, energy markets, global trade and wider economic resilience.

These rapid shifts between extremes are becoming more common. For Scottish Water, responding to these challenges requires a balanced focus on both adaptation and mitigation – strengthening resilience to climate impacts while continuing to reduce environmental impacts and support Scotland's wider sustainability ambitions.

For Scotland, the challenge is not just one of scarcity, but of managing water in a more variable and less predictable climate. Our climate adaptation planning highlights a growing "too much water, too little water" challenge – with drier summers, wetter winters and increasing pressure on water resources and peak demand during prolonged dry periods, particularly in parts of eastern Scotland.

This requires a different approach. Infrastructure designed for more stable historical conditions must now operate under increasing stress, while expectations for resilience and environmental protection continue to rise.

Water security in Scotland cannot be taken for granted. It must be actively managed through long-term planning, sustained investment and responsible use. This is central to our role as stewards of a service that underpins public health, the economy and the environment, now and for future generations.

CHAIR'S STATEMENT CONT'D...

As we all know, Scottish Water occupies a distinctive position. We are publicly owned, commercially run and independently regulated, with any surplus reinvested back into Scotland's water and wastewater infrastructure. This model allows long-term decisions to be taken in the interests of customers, communities and the environment.

It also carries intergenerational responsibility, in that as water infrastructure is built for decades, the decisions we are taking now will shape the resilience and sustainability of Scotland's water system for many years to come.

Long-term planning for Scotland's water future

As a result, a major focus for the Board this year has been the development of our 25 year Long-Term Strategy and the £13.4 billion Final Business Plan 2027-2033. These plans set out how Scotland's water system must evolve to meet the climate, environmental and societal challenges of the coming decades. They were shaped through extensive engagement with customers and stakeholders across Scotland. More than 25,000 customers contributed their views, and the Board engaged with the Chair and Vice-Chair of the Independent Customer Group to ensure the customer perspective is fully appreciated.

The discussions with stakeholders and customers were open and, at times, challenging. Understandably we all want services to remain affordable while also expecting continued investment in infrastructure that in many cases is decades old. Balancing these priorities requires careful judgement and trade-offs. The result is a plan that reflects what we heard while recognising the scale of investment needed to secure Scotland's water services for the future.

Balancing investment and affordability

Setting charges is a key responsibility for the Board and the decisions we make are informed by detailed financial analysis, regulatory scrutiny and direct engagement with customers and customer groups to ensure we get the balance right, and because of this the Board remains acutely aware of the financial pressures facing many households.

Our role is to strike the right balance between affordability today and resilience tomorrow as delaying investment can "kick the can down the road" and inappropriately shift the burden to future generations. As a result, Scottish Water household water and wastewater charges for 2026/27 increased by around £3.50 per month on average – in the knowledge that more than half of households do still receive some form of support or discount.

Therefore, given the scale of investment required in Scotland's water infrastructure continuing to grow, the Board took the decision to reduce Scottish Water's cash reserves in order to increase the amount of available investment, whilst maintaining an appropriate cash buffer to cope with unforeseen issues. Such an approach reflects our commitment to using resources responsibly and in the short and long-term interests of the people we serve.

Looking ahead to what we expect will be our largest ever investment programme over 2027–2033, we have been working with the Scottish Government to explore future financing approaches, including increasing the level of debt available to support this essential investment. This would help spread the cost of long-life assets, which will benefit customers and communities for generations, more fairly over time.

Investing for resilience and sustainability

Scottish Water continues to invest to strengthen resilience and improve environmental performance.

Progress towards reducing our environmental footprint is being supported through renewable energy generation, improved energy efficiency and nature-based approaches such as peatland restoration and blue-green infrastructure.

These approaches can improve water quality, support biodiversity and strengthen long-term resilience while reducing emissions.

CHAIR'S STATEMENT CONT'D...

This long-term approach is central to ensuring Scotland's water services remain sustainable in the face of climate change and rising environmental expectations.

Staying close to communities and learning from others

Board members have continued travelling across Scotland this year, meeting employees and visiting the communities they serve. From Inverness to Dumfries, these visits provide valuable insight into the realities of delivering water services across a diverse and geographically challenging country.

They also highlight the professionalism and dedication of the people who operate Scotland's water services every day.

Scottish Water also continues to benchmark its approach against leading utilities in the UK and internationally and it is really pleasing to see our good work performing well against others – ranking 1st in terms of water and wastewater companies in the UK, and 4th across all Utilities in the latest UK Customer Satisfaction Index.

While Scotland's publicly owned model is increasingly recognised for the strength of its independent regulatory framework and long-term planning, as well as its commercial approach, we remain committed to learning from others at home and abroad and to continually improving.

This international perspective will be particularly visible in October when Glasgow hosts the International Water Association World Water Congress & Exhibition. This provides an opportunity to share Scotland and the wider UK's experience, showcase innovation and learn from global best practice.

Key to this is ensuring that Scottish Water has the right people, and that as a Board we continue to have the skills and experience required to fulfil our role. I am pleased to welcome Belinda Howell and Barry White to the Board and look forward to the expertise and perspective they will bring, as we say farewell and thank you to Iain Lanaghan and Ken Marnoch for their valuable contribution, commitment and professionalism during their Scottish Water Board tenure.

Continuing to deliver

Looking ahead, the challenges facing water and essential infrastructure are significant. But with strong governance, a clear long-term strategy and dedicated people across the organisation, I know that Scottish Water will continue to meet these challenges while delivering for customers, communities and the environment round the clock.

Deirdre Michie
June 2026

CHIEF EXECUTIVE'S STATEMENT
ALEX PLANT

Delivering in tough conditions

Water companies do not get to choose the conditions they operate in – and this year Scotland gave us just about everything. According to the Scottish Environmental Protection Agency (SEPA), we experienced the driest start to a year since 1964, putting reservoir levels under pressure and driving up demand.

That was followed by periods of intense rainfall and flooding, sometimes within days of each other. This is the reality of operating a national water system in a changing climate.

Despite this, our operational performance this year was one of the best we have ever delivered. This reflects the professionalism, resilience and hard work of colleagues across the organisation and our delivery partners, who kept services running and customers supplied through demanding conditions. I am immensely proud of what they achieved.

When things go wrong – we learn and improve

Providing water and wastewater services to millions of customers across every part of Scotland is a big job and, inevitably, there will be times when things go wrong. What matters is how we respond, and how we learn and improve.

This year, major incidents affecting supply occurred.

At Rawburn Water Treatment Works, near Duns, we had to interrupt supply to customers to address filtration failures that were putting water quality at risk. It was a difficult situation with some problems reoccurring even after we thought they had been resolved. As a result, a number of customers were without water for an extended period, a failing on our part for which I want to apologise again. Rawburn tested us, and highlighted lessons we needed to learn for the future.

Those lessons were applied in February when a third-party diesel spillage at Killin caused contamination to water supplies. On this occasion teams worked around the clock to keep customers informed, supplied emergency bottled water swiftly and worked alongside supply chain partners to replace treatment membranes and restore services quickly. Feedback from local communities was overwhelmingly positive. Killin demonstrated our ability to learn and improve.

Strong performance – with more to do

Despite a challenging year, our overall performance remained strong. Drinking water quality remained high and among the best in the world, customer satisfaction continues to rank among the highest in the UK, and we remain the top-performing water and wastewater company for trust.

I was particularly pleased to see continued progress in reducing the most serious environmental pollution incidents. Category 1 and 2 incidents fell to two this year – our lowest on record to date and a significant improvement compared with a few years ago when performance was typically around 20 incidents annually. This sustained reduction reflects targeted investment, improved operational response and increased monitoring across the network. The roll out of event duration monitoring at overflows is also giving teams earlier visibility of issues, allowing faster intervention before incidents escalate. The underlying trend is being driven by better data,

CHIEF EXECUTIVE'S STATEMENT CONT'D...

proactive management and strong operational focus. While this progress is encouraging, our ambition remains clear – zero serious pollution incidents.

Wastewater services and sewer overflows remain firmly in the public spotlight, and rightly so. Customers and communities expect high environmental standards and transparency about performance. We are continuing to invest in wastewater infrastructure and operations to reduce pollution risks and improve environmental performance. While there is still more to do, we are making progress through targeted investment, increased monitoring and a stronger operational focus across the network.

We also made progress on sewer flooding, with a mix of proactive and reactive work helping to reduce the impact on customers despite challenging conditions.

Drinking water quality remained high during the year, with 99.92% compliance with strict standards, in line with recent years. We also improved performance by reducing treatment by-products, reflecting changes to how we operate and targeted investment, with drier weather helping to keep source water cleaner. There were some areas where performance was more challenging. We saw a small increase in failures at customers' taps, largely linked to warmer, drier weather and more targeted testing in higher-risk areas. This means we are identifying issues more effectively but also highlights where further improvements are needed.

Lead continues to be one of the biggest long-term challenges across the water sector, largely linked to historical lead plumbing and supply pipes within some older homes and properties, much of which sits beyond Scottish Water's network. While the use of lead pipework was common practice many decades ago, standards have changed significantly and we continue working to reduce risk and support progress towards a lead-free system and supporting customers to do the same. While failures increased, the number of tests also rose significantly, and overall compliance improved – demonstrating continued progress towards a lead-free system.

There are areas where we know further improvement is needed, particularly leakage. During the year we reduced leakage by volume, reflecting significant operational effort and continued investment in detection, repair and targeted interventions. Performance ended at 453 megalitres per day (Ml/d) - a small reduction compared to the outturn position for 2024/25 but short of our target of 450 Ml/d. While not where we want to be, this remains a core operational priority. We know leakage is one of the areas where we are behind the curve compared to leading UK water companies and accelerating progress to reduce this further will be a key focus for SR27.

Our new Water Directorate has placed leakage reduction at the centre of its plans, with strengthened approaches designed to accelerate progress. It's our ambition to reduce leakage by 10% by 2033, supported by continued investment in technology, proactive network management and targeted mains renewal.

This is intended to help us move towards leakage levels close to 400 Ml/d and less than half the level seen in 2002.

These challenges reflect both the scale and age of our network and the impact of changing weather patterns. Periods of dry weather increase demand and stress on assets, while wetter conditions can make leaks harder to detect.

Customers, communities and our people

Resilience is not something Scottish Water can deliver alone. During the exceptionally dry periods in 2025 we asked customers to help reduce demand by using water wisely. We were really appreciative when they responded so positively with demand reducing by around 60 million litres per day. This demonstrates the difference that can be made when we work together. Scotland still uses more water per person than all but one European country, and about 40% more than in Yorkshire. Building a resilient system will require all of us to think differently about how we value and use water in our homes, in businesses, in agriculture and in industry.

CHIEF EXECUTIVE'S STATEMENT CONT'D...

Everything we deliver depends on our people. The professionalism and commitment of colleagues across Scottish Water and our delivery partners underpin everything we achieve. We continue to benchmark our employment offer and focus on ensuring Scottish Water remains a place where talented people want to work and build their careers.

As we prepare for the next phase of delivery, we have also put in place a new operating model to increase our agility and resilience, and better align with customer priorities across water and wastewater services.

This includes the creation of new directorates designed to strengthen customer focus, improve end-to-end service delivery and support the scale of investment required in the years ahead. These changes will help ensure clearer accountability, stronger integration across functions and a sharper focus on the outcomes that matter most to customers and communities.

Investing and innovating for the future

Looking ahead, we have submitted our Business Plan for 2027-2033 to our economic regulator, the Water Industry Commission for Scotland (WICS), proposing £13.4 billion of investment to renew ageing infrastructure, improve drinking water quality, reduce sewer flooding risk and protect rivers and coastal environments. It will also increase resilience to drought and enable us to protect and enhance the environment through delivering more nature based solutions, adopting further renewable energy solutions and continuing our journey towards net zero carbon emissions. Alongside this, investment in digital monitoring and smarter networks will improve reliability, reduce leakage and enhance customer service.

Together, this programme will help ensure Scotland's water and wastewater services remain resilient, sustainable and fit for the future. We look forward to receiving WICS' response to our Plan and to working towards a Final Determination for the 2027-33 period in November 2026.

Our ambitions for customers, communities and the environment are deliberately stretching. We know delivering them introduces risk, particularly as we manage ageing assets, increasing climate volatility and a significant programme of investment. However, not pursuing these ambitions would create greater long-term risks to resilience, service and value. Our approach is to manage risk carefully while continuing to invest for the future.

Investment remains critical to strengthening Scotland's water system. This year saw the completion of the 100-mile-long Glasgow–Ayrshire water network resilience scheme, the largest capital project we have delivered. Across the country we continue to modernise infrastructure, improve environmental performance and strengthen resilience.

To support the scale and pace of investment required we are introducing a new Enterprise delivery model. It is designed to bring us and our delivery partners together in a more integrated way, focused on shared outcomes, long-term planning and collaborative delivery. By aligning teams around common objectives, this model – drawing on the Institution of Civil Engineers' Project 13 approach, which promotes organisations and partners working together around shared outcomes – will help improve efficiency, strengthen accountability and support innovation across our capital programme. It is designed to help deliver the next phase of capital investment more effectively while maintaining a strong focus on customer priorities, efficiency, resilience and value.

Innovation also has a key role to play across all that we do. In Dundee we have completed installation of more than 1,100 smart water monitors across homes, giving customers access to detailed information about their water use for the first time. We are now moving into a period of data analysis and customer engagement to understand what works, what doesn't and how this technology can support long-term behaviour change and improve our ability to reduce leakage further.

Early insights suggest that almost 20% of water supplied to these homes may be lost to leaks between the property boundary and within the home.

CHIEF EXECUTIVE'S STATEMENT CONT'D...

This highlights a significant opportunity to work directly with customers to identify and reduce these losses, helping cut waste and improve efficiency.

By giving customers better information and targeting support where it is most effective, the technology has the potential to reduce losses, lower energy use and improve resilience – a win-win-win for customers, the environment and the wider water system.

Financial discipline in a tighter environment

This year also required us to take some difficult financial decisions. To remain within our spending limits, we had to pause some selected projects within our capital investment programme. These were not easy choices. We understood this would delay the point at which the benefits for customers that flow from these projects would be realised, and that pausing projects would also cause challenges for our supply chain partners. However, we considered that this was the responsible course of action in the circumstances.

Maintaining financial discipline is essential if we are to protect long-term investment and ensure stability as we move into the next regulatory period.

We are operating with lower margin of tolerance in our finances, with an uncertain geopolitical environment, rising costs, supply chain pressures and increasing expectations on infrastructure performance.

We can manage these risks, but we must be clear about priorities, phase work carefully and ensure every pound delivers maximum value for customers. Our focus remains on protecting critical investment, maintaining services and strengthening the resilience of our network.

Cash levels are lower than in previous years, with funding released to support the capital programme.

We remain within the Board's risk appetite, however, and are managing this position carefully to ensure we exit the current regulatory period in a stable position and enter the next investment cycle on a firm footing.

We have also delivered a surplus again this year. This is important as it demonstrates the ongoing financial viability of Scottish Water. As a publicly owned organisation, any surplus we make enables further investment directly into Scotland's water and wastewater services – strengthening infrastructure, improving resilience and delivering for customers and communities.

The challenges ahead demand a different way of thinking. We cannot meet 21st century pressures with 20th century, end-of-pipe solutions. Climate change, growth and rising expectations mean we have to look at the whole system – how water is used, managed and valued across communities, sectors and catchments – and act earlier, not later.

That is the direction set out in our Long Term Strategy. Similar conclusions were reached in the recent Cunliffe Review, which recommended wide-ranging changes to policy and regulation for water in England and Wales. It's about planning upstream, working across sectors and boundaries, and tackling issues before they become problems - not leaving them to be dealt with at the end of the pipe. We are already putting that into practice - from how we manage our catchments and restore peatland to protect water quality and store carbon, to how new developments are designed with sustainable drainage and surface water separation built in from the start. This means working more closely with partners across planning, land use, housing, agriculture, energy, transport, local government, environmental regulation and wider infrastructure sectors to deliver joined-up solutions that reduce pressure on the system as a whole.

Done well, this approach delivers on all fronts. It reduces pressure on infrastructure, improves environmental outcomes and delivers better value for customers by avoiding the need for more costly, reactive solutions later. But going further will depend on policy and regulatory frameworks that back this approach - supporting collaboration, aligning incentives and enabling solutions that work across sectors, not just within them.

CHIEF EXECUTIVE'S STATEMENT CONT'D...

Leadership and experience

I would like to take this moment to recognise our Chief Operating Officer, Peter Farrer. Peter retires later this year after more than 40 years in Scottish Water and its predecessor entities. Peter has made an extraordinary contribution to shaping Scottish Water, modernising how we work and driving much improved services for customers. Having worked his way through a wide range of operational and leadership roles, he developed deep experience, practical insight and rigorous focus on service excellence.

Peter has a remarkably strong connection to colleagues across the organisation. Known for his humour, straight talking and clear sense of authority, he combines approachability with a firm focus on delivery. He has never lost touch with the realities of running the service, nor with our people at the front line who deliver for customers day in, day out. He has also made sure customers really are at the heart of all we do, being pivotal to turning Scottish Water from an engineering-led culture to a customer-led culture.

His leadership, expertise and personality will be greatly missed, and I want to thank him personally, and on behalf of us all, for his incredible contribution to Scottish Water, the water sector as a whole, and to Scotland.

It was truly fitting that Peter was made the first ever recipient of the Institute of Customer Service's Lifetime Achievement Award in March.

I am also pleased to welcome Simon Parsons as Wastewater Director and Kevin Roy as Water Director. Both bring deep experience from across Scottish Water, and their knowledge and leadership will help deliver the vital services our customers rely on today while also shaping the longer-term improvements needed to strengthen resilience and performance for the future.

Ready for what comes next

The challenges ahead are real and increasing. Climate change, ageing infrastructure, tighter finances and rising expectations will continue to test the resilience of our water and wastewater systems.

But this year has shown the strength of our services and the people behind them.

We have delivered one of our strongest performances on record in demanding conditions, and continued to strengthen resilience, improve services and deliver for the people and communities of Scotland.

It's what we are here for. It's what we are trusted to do. And it's what we are all proud to deliver.

Alex Plant
June 2026

SCOTTISH WATER: PERFORMANCE HIGHLIGHTS 2025/26 COMPARED WITH 2024/25 SHOWN IN BRACKETS

REGULATED COMPANY

CUSTOMER SERVICE

413 (416)
Overall Performance Assessment (OPA[1])

87.5 (87.3)
Household Customer Experience Measure (hCEM)

87.8 (89.3)
Non-household Customer Experience Measure (nhCEM)

275,806 (262,720)
Customer contacts[2]

432 (391)
Complaints

OPERATIONAL

99.92% (99.93%)
Drinking water compliance

453 Ml/d[3] (454 Ml/d)
Leakage

5,169 (5,047)
Interruptions to supply[4]

13,733 (14,452)
Water connections

14,164 (10,967)
Wastewater and surface water connections

2[5] (4) **191**[6] (199)
Environmental Pollution Incidents

PEOPLE AS OF 31 MARCH 2026

4,709
People

244
Apprentices and Graduates scheme

1 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.

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

3 Million litres per day

4 Greater than 6 hours

5 (Category 1 and 2)

6 (Category 3)

SCOTTISH WATER: PERFORMANCE HIGHLIGHTS 2025/26 COMPARED WITH 2024/25 SHOWN IN BRACKETS

REGULATED COMPANY

OPERATIONAL SCOTTISH WATER: GROUP FINANCIAL HIGHLIGHTS

£1.13bn Invested in capital and repairs

	Regulated Company	Group
Revenue	**£1,738m** (2025: £1,579m)	**£2,360m** (2025: £2,087m)
Surplus before tax	**£172m** (2025 restated: £59m)	**£199m** (2025 restated: £82m)
Capital Additions	**£812m** (2025: £778m)	**£818m** (2025: £782m)
Cash Balance[7]	**£65m** (2025: £136m)	**£224m** (2025: £270m)

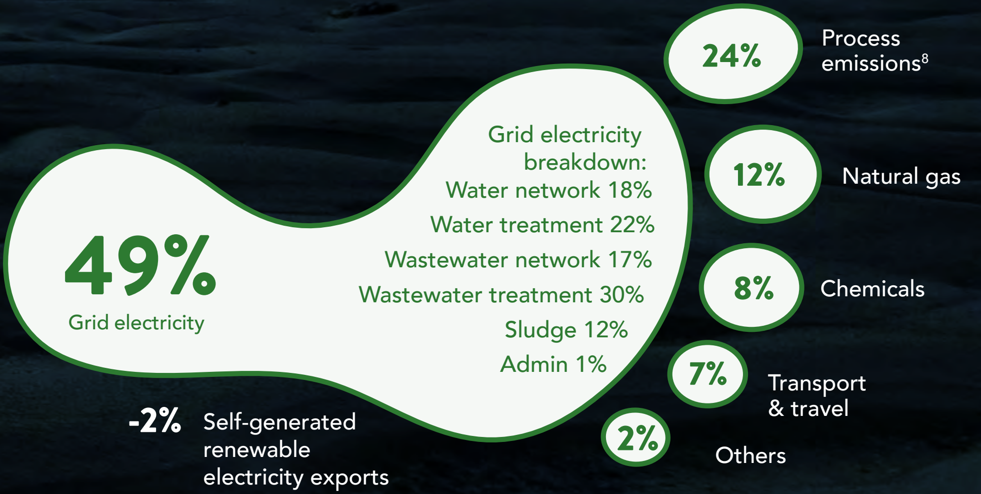
Further information can be found in Financial Sustainability chapter on pages 82 to 91

[7] 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.

CARBON FOOTPRINT

Reducing emissions

In 2025/26 our emissions were 207,361 tCO_2e compared with 220,434 tCO_2e in 2024/25. In 2025/26 we are expanding our reporting boundary to include purchased chemicals, bringing the overall footprint to 226,306 tCO_2e.



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

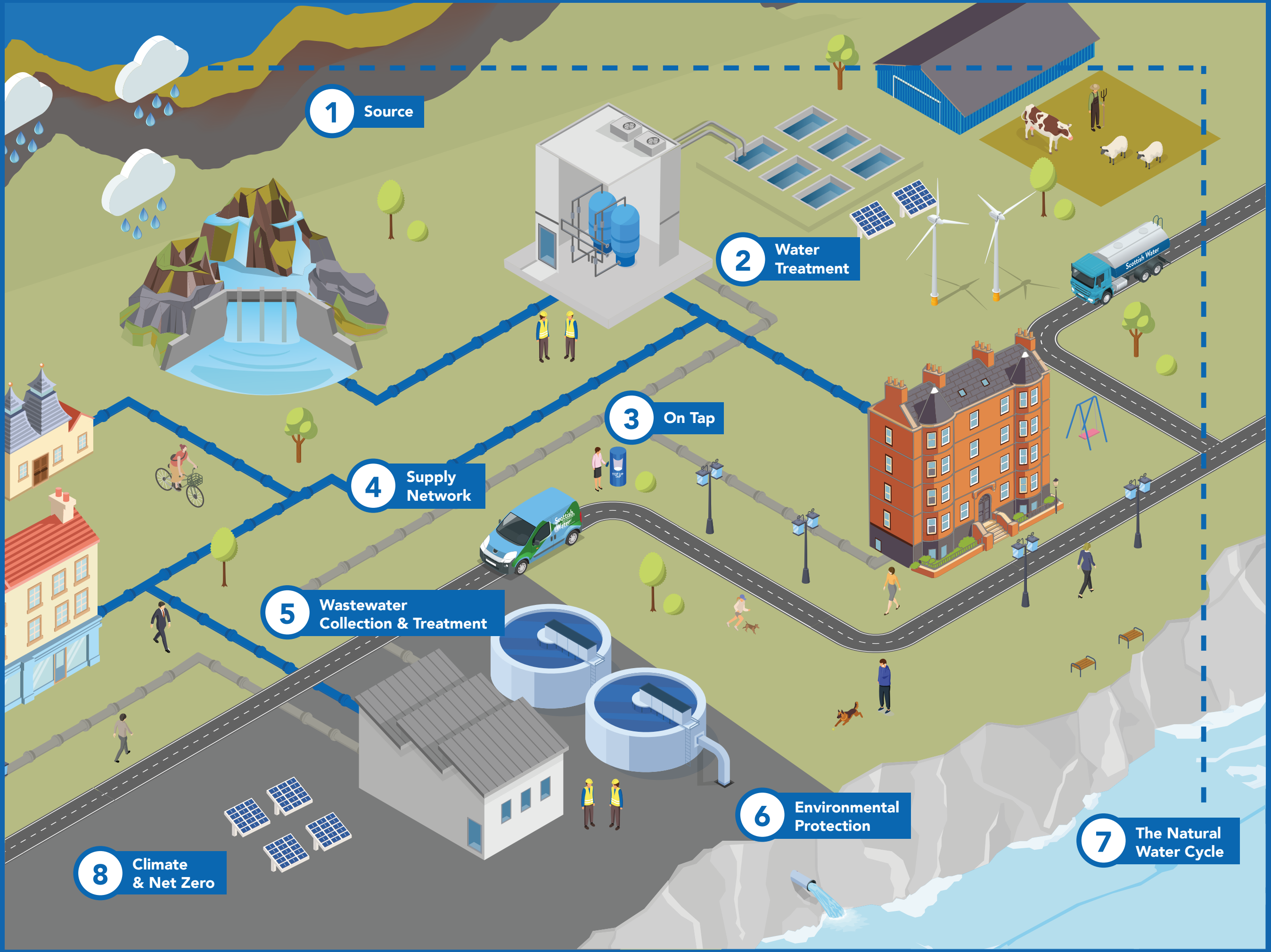
OUR VITAL ROLE

Scotland's water and wastewater system is a vital national asset, supporting public health, protecting the environment and enabling communities and businesses to thrive.

Every day, we collect, treat and return billions of litres of water through a complex network of reservoirs, treatment works, pipes and environmental safeguards.

As climate patterns shift and demand changes, we continue to invest in resilience, innovation and sustainable practices to ensure safe, high-quality services now and for future generations.

The diagram illustrates how water moves through our system – from source to treatment, supply, collection and safe return to the environment.



OPERATING CONTEXT

Statutory duties and public-service purpose

Scottish Water has a statutory duty to provide high-quality water and wastewater services to households and businesses across Scotland. Our role is to protect public health, support communities and safeguard the environment by delivering services that are safe, reliable and sustainable.

We are accountable to Scottish Ministers through the Scottish Parliament, and we are regulated to ensure services are delivered efficiently, transparently and in line with national standards and priorities.

Public ownership model

Scottish Water is publicly owned, operating for the benefit of the people of Scotland. This model enables a long-term, stewardship-led approach to investment and decision making, focused on sustaining and improving services rather than generating profit.

All our funding, including customer charges, is invested in infrastructure, operations and customer service, supporting resilience, environmental performance and affordability. Public ownership also reinforces accountability, ensuring decisions reflect the needs of customers, communities and the wider economy.

Ministerial objectives (2021-27)

Scottish Water's priorities are guided by Ministerial Objectives set by Scottish Ministers for the 2021–27 regulatory period. These objectives provide a clear framework for delivery, focusing on high-quality customer service, environmental protection, long-term resilience and value for money. They ensure our investment and operational decisions are aligned with Scotland's wider social, economic and environmental ambitions, while maintaining a strong focus on affordability and fairness for customers.

During the year, we continued to engage with the Scottish Government on the development of draft Ministerial Objectives and Principles of Charging for the 2027–33 regulatory period. These are expected to be finalised in Autumn 2026 and will help inform the Final Determination of our 2027–33 Business Plan later in the year.

Further information on Ministerial Objectives is available on the Scottish Government website **Scottish Water: directions 2020 - gov.scot**

REGULATORY FRAMEWORK

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 wastewater services to households and is also the wholesaler to the water retail market for businesses 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.

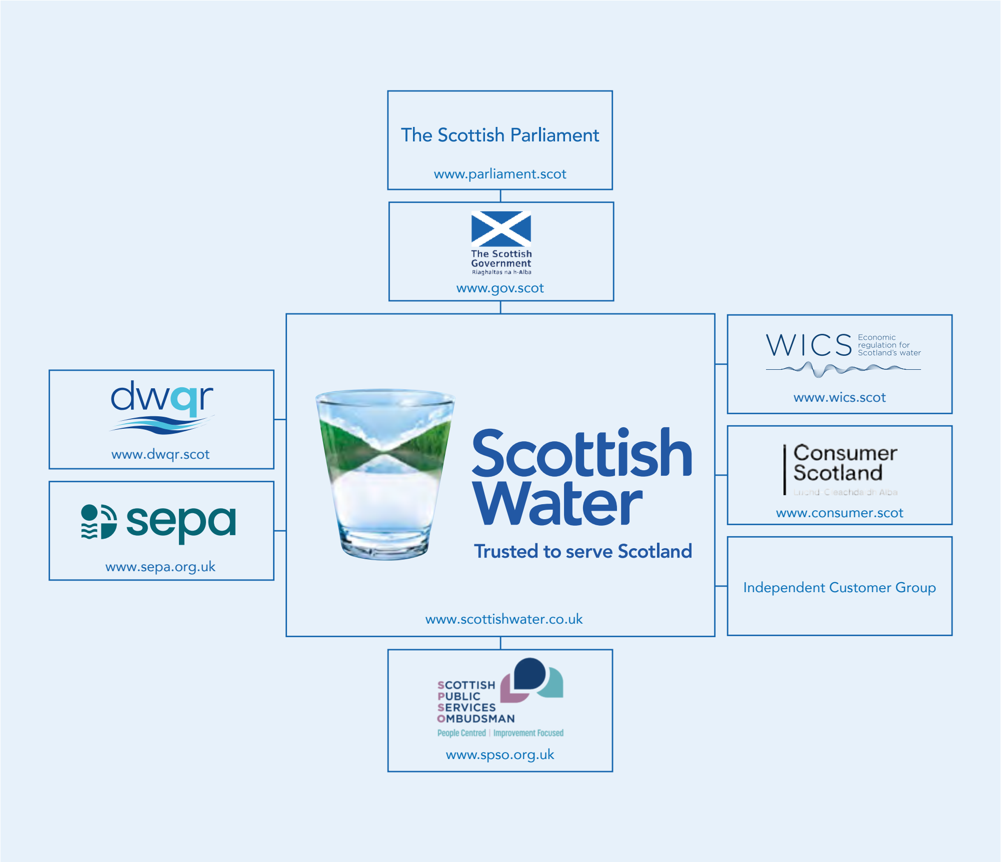
Business Stream is operated in accordance with the Governance Code (agreed with the Water Industry Commission for Scotland (WICS). The code sets out the operating regime Scottish Water and Business Stream must comply with to enable the operation of the licensed retail market. It has the same Chair as 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.

Regulatory framework

Scottish Water operates within a regulatory framework designed to protect customers and the environment, and to ensure services are delivered efficiently and transparently.

The Water Industry Commission for Scotland (WICS) sets the framework for investment, charges and long-term planning; the Drinking Water Quality Regulator (DWQR) oversees drinking water quality and safety; and the Scottish Environment Protection Agency (SEPA) regulates environmental performance, including wastewater treatment and discharges.

Together these arrangements provide clear expectations and oversight of our performance and investment, helping ensure we meet statutory requirements and evolving standards.



Customer charges and investment

Setting customer charges is never easy, and we remain acutely aware of the pressures customers face. For 2026/27, charges increased by 8.67% for the average household, this means an increase of £42 a year, or around £3.50 a month from 1 April 2026.

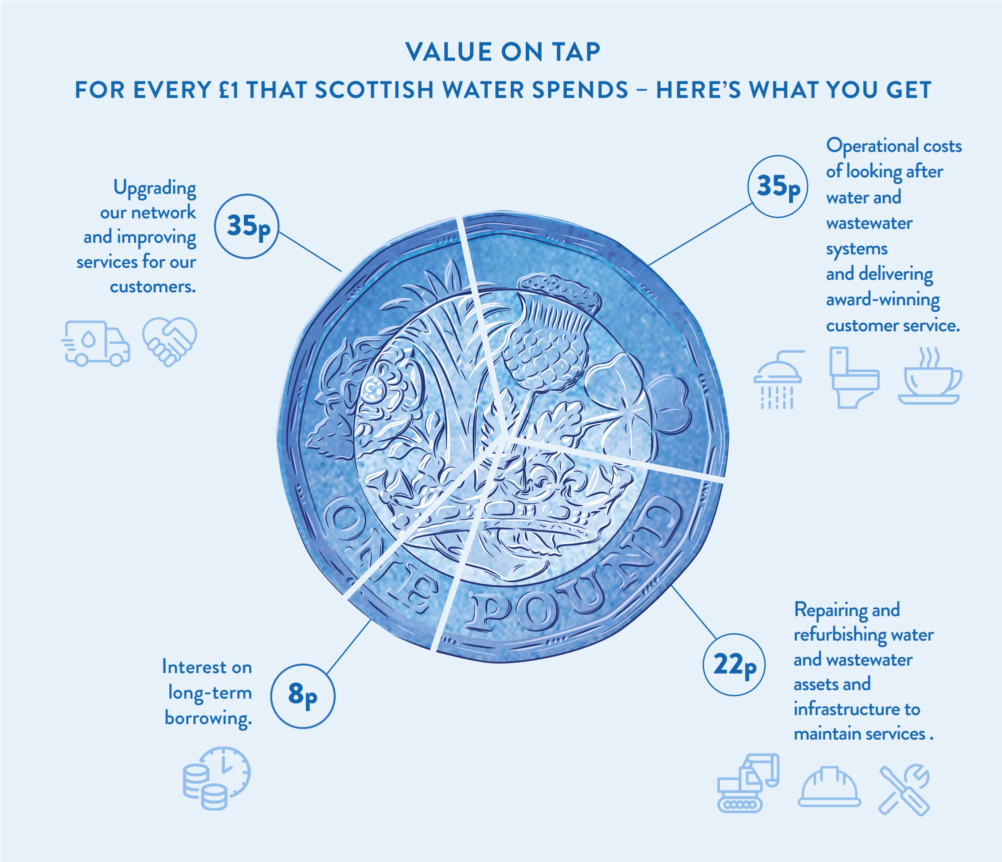
The increase reflected the investment needed to help maintain reliable services, protect public health, support environmental improvements and strengthen resilience to climate change. Charges are set within the limits set by the WICS for Scotland, and charges in Scotland remain among the lowest in the UK. Around 53% of households we serve receive help with charges through discounts, exemptions, or reductions.

The increase funds essential services and investment in pipes, treatment works and other ageing assets, as extreme weather and rising demand put the system under greater strain. Sustained investment strengthens resilience, protects the environment and supports future growth.

How value is reinvested for customers

Customer charges are carefully managed to fund the essential services we provide and to maintain and improve the infrastructure that underpins them. This includes operating and enhancing our networks, protecting the environment, and supporting the people and systems needed to keep services running safely and reliably.

The Value On Tap infographic on the right shows how each pound of customer charges is allocated, providing a clear picture of how money is used to deliver value today while investing for the future.



OUR STRATEGIC DIRECTION AND LONG-TERM AMBITION

We published our Long-Term Strategy, setting out how Scotland's water and wastewater system must evolve over the next 25 years to meet the challenges of climate change, population shifts and increasing environmental standards: **Our Sustainable Future Together - Scottish Water Long-Term Strategy** to achieve our strategic ambitions. It identifies the need for more resilient, adaptable infrastructure, greater use of nature-based solutions and a more integrated, catchment-based approach to managing water.

The strategy provides a clear direction for future investment and decision making, ensuring services remain reliable and sustainable while protecting the environment and supporting Scotland's wider climate and economic ambitions. It highlights three long-term pressures that will shape delivery: the climate crisis, population change and ageing assets.

We progressed the evidence and plans needed to turn our Long-Term Strategy into a clear, deliverable investment programme for the next 2027-2033 regulatory period. This work has been recognised externally, including reference by the Scottish Futures Trust in its 30-year needs assessment **Long-term infrastructure for Scotland**

Strategic ambitions

Our strategic direction is built around three strategic ambitions that guide how we deliver for customers, communities and the environment. These ambitions provide a clear and consistent framework for decision making, investment and performance across the organisation.

They reflect our core purpose as a publicly owned utility, delivering excellent service, protecting and enhancing the environment to support a flourishing Scotland by being trusted to care for the water on which our customers depend on 24/7. We also support sustainable economic growth. Together, they ensure we balance the needs of today with the long-term resilience of Scotland's water system. This report sets out how we have delivered against each of these ambitions during the year.

Our Purpose

We will support a flourishing Scotland by being trusted to care for the water on which Scotland depends

Our Ambitions

Service Excellence

Beyond Net Zero Emissions

Great Value and Financial Sustainability

OUR LONG-TERM STRATEGY

Challenges

The major changes we are facing

The climate crisis bringing extreme weather.

The changing population of Scotland.

Our assets, the network of pipes and treatment works across Scotland, are ageing.

Our Long-Term Outcomes

The results we will deliver over the next 25 years

Scotland's tap water remains a source of national pride and is valued as a precious resource.

The quality of Scotland's rivers and seas has improved, and our communities are protected from sewer flooding, through collaboration with others.

Scottish Water has played a key role in enabling Scotland's sustainable economic and housing growth.

Key Approaches

How we will work to deliver our outcomes

Lead partnerships with organisations, customers and communities.

Transform and drive efficiency, reducing costs in the way we work through research, innovation and technology.

Reduce demand on our services and assets by addressing leakage, helping customers use less water and managing rainwater on the surface.

Our Promise to Customers

The foundation for all that we do

We will continue our work to improve the lives of our customers and communities, and help Scotland to flourish come rain or shine.

BUSINESS PLAN 2027–2033 (SR27) AND INVESTMENT FRAMEWORK

Our final business plan

We have submitted **Our Final Business Plan for 2027-2033** to our economic regulator WICS. Our Plan has been shaped by our most extensive ever customer engagement programme, with over 25,000 customers sharing their views with us, alongside constructive challenge and input from a range of stakeholders.

Our Plan proposes £13.4 billion of funding to maintain and improve Scotland's water and wastewater services. Once WICS' regulatory process concludes it will issue its Final Determination for the period. This will set out the outcomes that we are expected to deliver for customers, communities and the environment over the six-year period, and the funding envelope within which we must operate.

In developing our plans, we balanced the need to maintain and improve essential services with affordability for customers.

In response to customer research, challenge and feedback on our draft Business Plan, we reduced the capital investment envelope to £8.1 billion (from £8.5 billion), excluding operating costs. Even after this reduction, SR27 (2027-2033) remains a significantly larger plan than SR21 (2021-2027), with a larger investment programme, reflecting the need to steadily increase the amount we invest in our assets to avoid future step-changes in investment requirements.

This ensures investment is targeted where it delivers the greatest value, while maintaining a clear line of sight from near-term plans to long-term outcomes. Analysis shows that the investment we have proposed in the six years of our 2027-33 Business Plan would take us around 23% of the way towards our 25-year Long-Term Strategy outcomes.

BUSINESS PLAN 2027–2033 (SR27) AND INVESTMENT FRAMEWORK

How we deliver for Scotland

We deliver water and wastewater services across Scotland; from source to tap, and from drain to environment. It brings together the management of assets, operations, people and partnerships to provide safe, reliable and sustainable services for customers.

We abstract, treat and distribute drinking water, and collect, treat and return wastewater safely to the environment. This is supported by a large and complex network of treatment works, pipes, pumping stations and reservoirs, alongside the people and systems required to operate them effectively.

Our wider group supports the delivery of additional value for customers. Commercial activities, including renewable energy and retail services, operate on a self-funding basis and generate income or efficiencies that can be reinvested to support core services and help manage costs. Value is created through long-term investment, efficient operations and collaboration with partners across sectors.

Public ownership supports a long-term focus on maintaining and improving services, strengthening resilience and protecting the environment for future generations.

Our new operating model

On 1 April 2026, we launched a new operating model designed to deliver better outcomes for customers, communities and the environment. This change reflects the scale of the challenge ahead. Climate volatility, ageing infrastructure, population change and rising expectations of our customers mean we must work differently to continue to deliver the reliable, resilient services on which Scotland depends. This is especially true as we prepare to deliver our largest ever investment programme through **SR27 Business Plan.**

Our new structure brings greater clarity, pace and accountability to how we operate - making us "match fit for SR27". We have created four service-focused directorates - Water, Wastewater, Customer Service and Capital Investment. These four are supported by six enabling functions spanning Corporate Affairs, Digital & Innovation, Finance, Governance, People, and Strategy & Regulation.

This simpler, more joined-up model brings planning, operations and delivery closer together, helping us make faster decisions and respond more effectively to customer and environmental needs.

It also reflects what our people told us. Feedback from colleagues across the business highlighted the opportunities for stronger collaboration, clearer accountabilities and more efficient decision making.

The new model addresses this feedback by simplifying accountabilities, strengthening leadership and creating an environment where our people can perform at their best. The new model will help us deliver at greater scale, improve resilience and unlock innovation, ensuring we continue to provide high-quality, trusted services while meeting the evolving expectations of customers, regulators and communities across Scotland.

DELIVERING TOWARDS OUR LONG-TERM OUTCOMES AND PROMISE TO CUSTOMERS

Scotland's tap water remains a source of national pride and is valued as a precious resource

The quality of our rivers and seas has improved, and our communities are protected from sewer flooding, through collaboration with others

Maintenance

Invest c.24% more on asset maintenance than during 2021-27 (SR21), making sure infrastructure lasts as long as possible and is well looked after for future generations.

Drinking water quality

Invest £1,720 million to meet the high standards of drinking water that our customers have pride in.

Reliable water

Reduce the risk of drought impacting on 350,000 homes and businesses.

Leakage

Reduce leakage by 10% at a national level, focusing on water resource deficit zones.

Scotland's rivers and seas

Increase monitoring of our network and address 150 unsatisfactory intermittent discharges to make lasting improvements to our environment.

Internal and external sewer flooding

Reduce the impact of sewer flooding and the number of sewage blockages caused by inappropriate items being put into the sewer system.

Scottish Water has played a key role in enabling Scotland's sustainable economic and housing growth

Sustainable growth

Ensure capacity to facilitate the connection of c.120,000 new homes and business premises.

Tomorrow's workforce

Partner with further and higher education establishments and reach 90% of Scottish schools to build Science, Technology, Engineering and Maths skills for a resilient, sustainable workforce.

A prosperous Scotland

Our proposed investment programme for 2027-2033 will sustain £12.6 billion of output across Scotland's economy.

We will continue our work to improve the lives of our customers and communities, and help Scotland to flourish come rain or shine

Customer service

Maintain our position as a leader in customer service, protecting the most vulnerable customers.

Better places

Better manage rainwater through collaborative approaches to address localised flooding and create green spaces that benefit communities.

Natural environment

Create 1,500 hectares of new woodlands with c.2.4 million trees and restore peatlands, safeguarding the water in our reservoirs, absorbing carbon and providing spaces people can enjoy.

EXTERNAL ENVIRONMENT AND EMERGING CHALLENGES

Scottish Water operates in an increasingly complex and uncertain environment.

The systems that provide safe, reliable water services were largely designed for a different era – with more predictable weather patterns, lower demand and less stringent environmental expectations. Today, those assumptions are changing rapidly.

Climate change, economic pressures and evolving customer expectations are reshaping how we must plan, invest and operate. These factors are not isolated – they interact and compound, increasing both the scale and urgency of the challenges we face.

Responding effectively requires long-term thinking, careful prioritisation and continued collaboration across sectors.

The key challenges shaping our operating environment

Ageing infrastructure

Much of Scotland's water and wastewater network was built decades ago. Maintaining performance while renewing and modernising these assets is increasingly complex and resource-intensive.

Cyber security and critical infrastructure risks

As a provider of essential national infrastructure, protecting systems and data from emerging threats is an ongoing priority.

Economic and cost pressures

Rising energy prices, inflation and supply chain volatility are increasing the cost of delivering essential services and infrastructure programmes. Balancing this with affordability for customers remains a key challenge.

Environmental standards and regulation

Standards continue to evolve as Scotland responds to climate and biodiversity challenges. Meeting these expectations requires sustained investment and innovation.

Climate volatility

More frequent extremes – from prolonged dry periods to intense rainfall – are placing pressure on assets and increasing the risk of both water scarcity and flooding. Infrastructure must now operate reliably under far more variable conditions.

Workforce and skills pressures

Attracting and retaining the specialist skills needed to operate and transform water services is becoming more challenging in a competitive labour market.

Rising expectations and awareness

Customers and communities rightly expect high levels of service, transparency and environmental protection. Public awareness of water-related issues continues to grow, increasing scrutiny and the need for clear communication.

Population change and demand

Shifts in population, housing development and economic activity are changing patterns of demand, requiring more flexible and responsive planning across regions.

CLIMATE VOLITILTY AND WATER SECURITY

Recent events illustrate how quickly water security can change. Prolonged dry periods can lead to restrictions and heightened supply risk, while intense rainfall can overwhelm sewer systems and increase flooding and pollution risk. Even regions historically considered water secure are now seeing greater variability, reinforcing the need for resilient infrastructure and effective demand management.

This growing volatility is also reflected in global scientific assessments. **The Global Tipping Points Report (2025)** warns that eight of the eleven identified Earth system tipping points are now at risk of being triggered as global temperatures rise. These include major changes to ice sheets, ocean circulation, ecosystems and rainfall patterns, with the potential for cascading impacts across climate, water availability and critical infrastructure. While some impacts are already being observed, scientists warn that crossing critical thresholds could lock in changes that unfold over decades or centuries.

FOCUS

More extreme weather, a changing challenge

This reinforces the importance of long-term planning and early action to strengthen resilience to increasingly volatile conditions.

In response to this changing picture, our planning and investment priorities focus on maintaining reliable services, protecting the environment and supporting communities as pressures increase. This includes strengthening resilience across water resources, networks and treatment systems, alongside demand management and partnership working to reduce risk during extreme events.

Reliable water and wastewater services underpin public health, economic activity and the quality of our natural environment. As climate variability increases, building resilience across the whole system becomes increasingly important to safeguarding Scotland's future.

CLIMATE PROJECTIONS INDICATE SCOTLAND WILL EXPERIENCE:

- DRIER SUMMERS AND INCREASED SEASONAL DEMAND
- WETTER WINTERS AND MORE INTENSE RAINFALL EVENTS
- GREATER VARIABILITY IN WATER AVAILABILITY
- INCREASING PRESSURE ON ASSETS AND NETWORKS DURING EXTREMES

SERVICE EXCELLENCE

Strong performance and a focus on improving experience

Every day, our people work around the clock to provide safe, reliable water and wastewater services, backed by 24/7 customer contact teams, frontline operational response and real-time network monitoring and control. In a year where expectations continued to evolve, customer feedback and insight have been more vital than ever in shaping how we prioritise, communicate and invest. We are committed to listening, learning and acting and always striving to do more and be better, and focusing on the improvements that matter most to customers and communities across Scotland.

In a more complex and demanding operating environment, we delivered one of best operational years to date - following our highest-ever performance last year. This strong result was underpinned by continued high levels of customer satisfaction and trust. Day-to-day service remained strong for most customers, even as expectations continued to rise, particularly around communication, speed of response and how we manage more complex or longer-running issues.

The Overall Performance Assessment (OPA) score is our primary measure of operational performance, bringing together a range of indicators across customer service, water quality, reliability and environmental performance into a single, consistent metric. It provides a clear and transparent view of how well the organisation delivers essential services for customers and communities.

Scottish Water achieved an OPA score of 413, compared with 416 last year. While slightly lower year-on-year, this remains one of our strongest operational performances to date, reflecting sustained high standards across core services despite a more challenging operating environment.

This year reinforced the importance of not only resolving issues effectively but improving how customers experience our service from start to finish, particularly during incidents. We focused on clearer communication, earlier action when issues arise, and more proactive engagement with communities and stakeholders[10].

Customer Experience Measures (CEM) - which reflect how customers rate the service they receive when they contact us - remained within target ranges across both household and non-household services. This took a lot of hard work from teams across Scotland to either prevent issues impacting customers or to recover services quickly. Household CEM was 87.52, consistent with the previous year (87.37). However, we did see an increase in issues impacting customers, while non-household CEM was 87.83, slightly lower than last year (89.35) but in target. In both instances the main challenge was increased contacts and formal complaints.

FACTS

[10] see Rawburn and Killin case studies.

87.52
HOUSEHOLD CUSTOMER EXPERIENCE MEASURE (hCEM)

87.83
NON-HOUSEHOLD CUSTOMER EXPERIENCE MEASURE (nhCEM)

SERVICE EXCELLENCE

Customer contact and channel trends

Customer contact volumes remained stable with total calls of around 280,000, sitting comfortably within our expected range of 250,000 to 306,000. While demand fluctuated throughout the year, overall volumes tracked slightly higher but broadly in line with historical patterns.

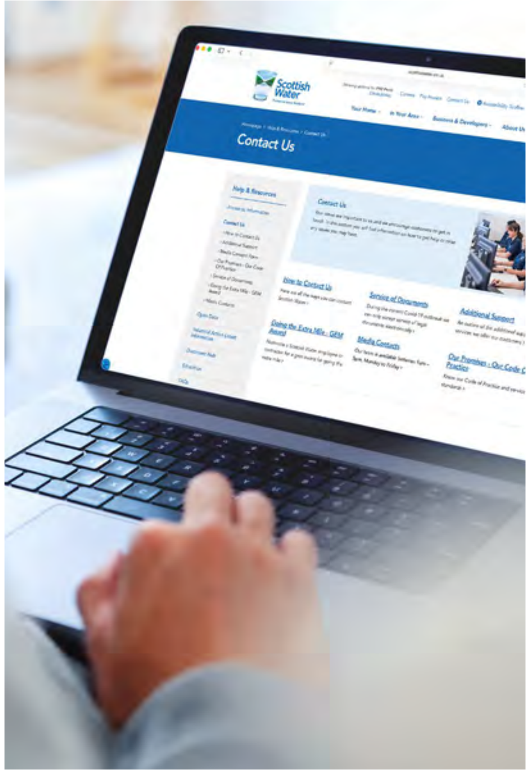
There are clear shifts in how customers are choosing to contact us. Digital and self-service channels continued to grow strongly.
We handled more than 49,500 customer portal contacts (those getting in touch through our website or their online account) during the year which is around 16% higher than the five-year average reflecting increased use of online services and a growing preference for more convenient, on-demand access.

This trend is also reflected in web usage, with the Scottish Water website seeing over 3.2 million website visits - 9% above the two-year average. Email volumes totalled 68,124 - around 80% of the five-year average, with every month falling below historical levels.

Social media contacts also reduced significantly, with activity on X (formerly Twitter) and Facebook well below five-year averages.

These trends reflect a clear and continuing shift in customer behaviour, with increasing demand for faster, more accessible digital services.

We know we must strive to evolve to ensure our customers can access the information they need through the channels they prefer.



3.2m
WEBSITE VISITS

68,124
TOTAL EMAIL VOLUMES

49,500
CUSTOMER PORTAL CONTACTS

SERVICE EXCELLENCE

Strengthening wholesale services

We continued to strengthen our wholesale services for the 21 Licensed Providers (LPs) while preparing for changes in how non-household customers understand and manage their water use. Our focus was on improving service for business customers, simplifying systems and laying the groundwork for smart metering to support water efficiency and demand reduction.

We moved from 1st to 2nd position in the Retailer Measure of Experience (RMeX) survey, which benchmarks our wholesale service against peers in England. LPs highlighted opportunities to improve how we notify retailers about supply disruption, and we are using this feedback to inform planned system and process improvements. We remain focused on strengthening retailer experience and regaining a leading position in the RMeX survey.

Our non-household Customer Experience Measure remained within target, but dipped compared with last year, particularly due to lower Business End User satisfaction. In response, we worked across teams delivering wholesale services to better understand business customer needs and improve service, with some signs of improvement emerging towards the end of the year.

A priority was developing the case for smart metering for non-household customers. Smart meters will give both customers and us much greater visibility of water use, helping identify leaks, reduce demand and support our Net Zero ambitions. We completed procurement for meters and network connectivity, developed the investment case for national deployment and worked with retailers and stakeholders to agree how smart metering will operate within the competitive market. Subject to regulatory approval, smart meters would be installed at all metered business premises in Scotland during 2027–33, with early deployment beginning in the coming year.

We also supported preparations for the next regulatory period by working with the Scottish Government and industry stakeholders to inform the Principles of Charging for 2027–33. This included research and analysis to balance affordability support for customers who need extra help with maintaining strong value for all customers.

Alongside this strategic work, we delivered tangible improvements to day-to-day services for LPs. Enhancements to self-service portals made it easier for retailers to manage customer interactions, while a major simplification of internal wholesale systems reduced integrations from 37 to two.

This improved resilience, reduced complexity and enabled more efficient service delivery.

These improvements support our strategic ambitions by enhancing service for business customers, improving operational efficiency and preparing for smarter, more sustainable water use across Scotland's non-household sector.

We will also develop market systems to enable secure sharing of consumption data with LPs and customers, supporting improved service, water efficiency and long-term resilience.

SERVICE EXCELLENCE

Trusted by our customers

We remain one of the most trusted water and wastewater providers in the UK. In the latest UK Customer Satisfaction Index (UKCSI) **UK Customer Satisfaction Index (UKCSI),** we achieved a score of 79.2, an increase of 1.7 points on the previous result. This places us above the UK all-sector average, the utilities sector average and the water sector average, and we remain the highest-performing water and wastewater company in the UK for customer trust, scoring 8.8 points above the sector average. We also ranked 4th across all UK utilities. However, the results also highlight areas where improvement is required. Despite an increase in our UKCSI score, our overall ranking across organisations in Scotland fell from 4th to 7th place, reflecting even better improved performance from other organisations. This underlines how quickly customer expectations are evolving and the need for us to improve further to keep up.

These results demonstrate the strength of our day-to-day service delivery and the commitment of our people across Scotland.

Customers continue to value the reliability of core services, the professionalism of our teams and the support provided during planned and unplanned events.

One area where we know we need to improve is first-time resolution. Customers who have to contact us again after raising an issue tend to report lower satisfaction. We also saw a 9% increase in customers reporting issues during the year, reinforcing the need to focus not only on responding well when things go wrong, but on preventing issues from arising in the first place. Feedback shows that resolving some issues can still take too much effort from customers, and we know that improving the overall experience will be important to strengthening our UKCSI performance.

Over 30% of customers told us their preferred way to contact Scottish Water is via our website. The website also emerged as one of the top three improvement recommendations, with 12.3% of customers asking for improved navigation.

We will deliver improvements to make it easier for customers to access information they need. While complaint volumes remain low, we continue to focus on learning from every case to improve outcomes and the overall customer experience. These results reflect the continued focus of our people on delivering reliable, high-quality services.

No 1

UK WATER AND WASTEWATER ORGANISATION FOR CUSTOMER TRUST

79.2

CUSTOMER SATISFACTION SCORE, ABOVE THE UK ALL SECTOR AVERAGE

SERVICE EXCELLENCE

Putting customers at the heart of decisions

Customers are central to how we plan, prioritise and deliver services, everything from day-to-day operations to long-term investment decisions. Over the past year, we have strengthened how customer insight informs decision making, ensuring the services we provide reflect what matters most to the people and communities we serve. This is increasingly important as we balance affordability, resilience and environmental performance.

Customers also played a leading role in shaping our **2027–2033 Business Plan**. In developing this plan we have listened to over 25,500 customers, to understand their expectations and priorities. Asking them to consider the challenges facing water services - including climate change, population change and ageing infrastructure - alongside the outcomes our proposed investments would deliver and the potential impact on bills.

The Independent Customer Group (ICG) had a formal role in assuring the quality of the research undertaken and in confirming that customer views were reflected in the Final Business Plan. It commented that:

"The ICG is satisfied with the quality and rigour of the research. Customer views have been reflected in and shaped the Business Plan. The plan is considered reasonable in light of customer priorities."

Feedback showed broad support across all investment areas, with confidence increasing as customers were given clearer and more detailed explanations of what the plan would achieve.

This demonstrates the importance of transparency and engagement in building trust and support for long-term investment. It has also helped shape our investment programme by ensuring it reflects customer priorities, balances ambition with affordability and demonstrates clear value for money.

Strengthening the customer voice and turning insight into action

Customer insight shows the pride people across Scotland have in their water and natural environment, alongside expectations for high standards of service and affordability. To strengthen this, we established a new dedicated Customer Service Directorate at the centre of our new Operating Model, bringing customer-facing services, insight and communications together to keep the customer voice central to decision making.

The new Directorate sets service standards and strengthens accountability and coordination to support a more consistent experience from first contact through to resolution. It brings together the Intelligent Control Centre, Customer Engagement Centre and Development and Operational Services: all aimed at ensuring our operational teams are responsive to the needs of our customers.

This includes 24/7 customer support, enhanced assistance for vulnerable customers, and services that support sustainable economic and housing growth. It also provides continuous monitoring of thousands of operational water and wastewater assets across every part of Scotland. Our Scientific Services team is also part of our new Customer Service Directorate, recognising the critical role independent science and monitoring plays in maintaining trust in drinking water quality and environmental compliance.

We are improving how we listen and respond to customers, particularly during service incidents. In 2025, we piloted a new approach to capture feedback from those affected by an interruption to their water supply, including those who were not the primary point of contact. Customers highlighted the importance of timely and accurate communication; proactive updates; clear expectations on resolution times; reliable and accessible digital information.

SERVICE EXCELLENCE

Learning from customers

Providing a consistently high-quality customer experience remains central to how we deliver our public service. While performance remained strong across many day-to-day interactions, we saw where service can feel more difficult for customers when issues are complex, involve multiple teams or take longer to resolve.

The number of escalations increased to 435 (from 363 in 2024/25), with blockages accounting for 148 cases (34%). An escalation is where a customer requests additional support because a case is complex, has not progressed as expected, or the impact is significant. It signals that additional coordination and focus is required.

We respond by triaging cases quickly, confirming clear ownership and bringing together the right operational and customer teams to resolve issues. This includes agreeing next steps, providing clear and timely updates, and intervening early where progress has stalled.

A key insight is the importance of reducing "chaser" contacts which are those when customers get back in touch for updates.

This is being addressed by improving communication, setting clearer expectations, and strengthening ownership of complex cases.

We are also intervening earlier in cases that are not progressing as planned, helping resolve issues before customers feel the need to raise formal complaints. This approach strengthens transparency and supports better outcomes for customers.

We have increased the involvement of customers and communities in projects that affect them, particularly where investment is being planned or delivered in their local area. Through targeted engagement - including public meetings, surveys and interactive events - we seek to understand local priorities, concerns and insights at an early stage. This helps inform decisions on where and how investment is delivered, including the prioritisation of asset upgrades and the design of solutions.

Ensuring we engage at the right time is critical, enabling meaningful input before key decisions are finalised and helping to build shared understanding of the challenges and issues faced.

CASE STUDY

River Almond – improving river health through investment and engagement

SERVICE EXCELLENCE

Learning in real time - from major incidents to better outcomes

Two significant operational incidents occurred during the year, at Rawburn Water Treatment Works in the Scottish Borders and Killin in Stirlingshire. They tested our resilience, response capability and customer communication at scale. While both were very different in nature, together they demonstrate how we are learning, adapting and continuously improving how we respond to complex events.

Rawburn Water Treatment Works - a complex rural network under pressure

In August 2025, we responded to a major incident at Rawburn Water Treatment Works, near Duns, which supplies around 10,000 properties across Berwickshire. Supplies were shut off as a precaution to protect public health following a pipe failure within the treatment process.

The impact of this decision was significant due to the scale and complexity of the rural network. The Rawburn Water Treatment Works system includes around 368 miles of pipework and nine service reservoirs, storage tanks that hold treated drinking water before it is supplied to customers, helping maintain water pressure and a reliable supply.

As water treatment works tanks were taken offline for cleaning, the wider network began to deplete, with pipes and storage tanks emptying faster than they could be refilled. This created highly variable conditions across the network, with some areas losing supply completely while others experienced intermittent service as water moved through the system. Restoring supplies safely and gradually across such a large rural network added further complexity to the response.

At the peak of the incident, up to 6,000 properties experienced disruption, while a further 4,000 had supplies protected through operational interventions. In the initial stages, 274 properties were placed under a precautionary "Do Not Drink, Do Not Cook" restriction, which was lifted once water quality was confirmed.

A MAJOR OPERATIONAL AND CUSTOMER SUPPORT RESPONSE WAS MOBILISED:

- Up to 26 tankers operating 24/7, bringing more than 13 million litres of water into the network
- Distribution of 210 pallets of bottled water (over 201,600 litres)
- 1,599 doorstep deliveries, improving from one-hour to 30-minute response times
- 15 local water collection points, including a drive-through hub at Berwickshire High School, Duns
- 102 staff and volunteers supported communities on the ground.

SERVICE EXCELLENCE

Despite these efforts, restoring supplies across a dispersed rural network proved challenging. As water was reintroduced, issues such as discolouration and intermittent supply reoccurred in some areas, requiring repeated flushing and monitoring. Around 4,000 customer contacts were received during the incident.

Communication activity was extensive, including 32 website updates, 23 social media posts, four media releases and 14 stakeholder briefings. Subsequent feedback highlighted that updates were not always as clear, timely or localised as customers needed during an evolving situation.

This was one of the largest customer support responses we have delivered, and it provided critical learning. A detailed review identified the need for clearer communication and better explanations of how incidents are managed in more complex rural networks where restoration can take longer due to the size of the area impacted.

Complaints and frustrations from customers affected by the Rawburn incident were largely around:

- Lack of clear restoration times:
  Customers said they often could not get up to date information on when water would return, particularly in rural areas where supply came back intermittently;
- Intermittent supply and changing expectations:
  Some properties briefly got water back and then lost it again as the large rural network repressurised and tanks refilled, which caused confusion and frustration when they were told supply was restored.
- Communication and localisation of updates:
  Customers felt information was too general and not specific enough to the area where they lived or worked.
- Length of disruption:
  Some customers were without normal supplies for several days, with low pressure or intermittent supply, affecting households, farms and businesses.

SERVICE EXCELLENCE

Killin: applying learning to improve incident response

A diesel spill into the River Dochart near Killin in February 2026 (caused by damage to a third-party fuel tank at a nearby site) affected the raw water source for the local treatment works. As a precaution, we immediately shut down the intake to prevent contaminated water entering supply. Around 500 homes and businesses were affected, with customers advised not to use tap water and that their water should only be used for flushing toilets.

Our response demonstrated improvements from the lessons learned after the Rawburn incident. Teams acted rapidly to contain and resolve the issue, including isolating the network, carrying out detailed cleaning and equipment replacement, installing additional treatment processes including replacement filtration membranes, and undertaking extensive sampling and analysis alongside SEPA, NHS partners and Stirling Council. Environmental monitoring extended downstream into Loch Tay and the River Tay.

A targeted tankering and flushing operation enabled supplies to be safely restored within a matter of days. Tankered supplies continued until the works returned fully to service in late March.

Customer support was also mobilised at pace:

- Distribution of more than 40,000 bottles of water
- Established of a staffed community support hub in Killin
- Provision of practical support, including a hot food van for customers unable to cook

The most visible improvement was in communication. Updates were more frequent, more localised and more proactive, helping customers understand what was happening and what to expect.

Daily video briefings from senior leaders, regular digital updates and strong media engagement ensured consistent messaging throughout. Stakeholders, including elected representatives and local partners, were closely engaged, with site visits arranged to provide direct assurance.

Together, these incidents highlight both the challenges of operating a large, complex and ageing network, and the importance of continuous improvement particularly around real-time communication.

SERVICE EXCELLENCE

Supporting development, housing and customer confidence

Scotland's development pipeline relies on water, wastewater and surface water infrastructure being in place at the right time. During 2025/26 we continued to support new homes, businesses and communities by providing the connections and technical services that help projects move from plan to delivery.

Delivery stayed strong despite the wider economic slowdown. We completed 13,773 new water connections and 14,164 wastewater and surface water connections, helping unlock development across the country. Water connections were broadly stable, down 4% year-on-year. Wastewater and surface water connections increased by 29%, reflecting more complex developments and the growing need to manage water sustainably from the outset. Increasingly, new sites require more sophisticated drainage and wastewater solutions, including surface water separation,sustainable urban drainage systems (SuDS) and enhanced environmental protections to reduce pressure on existing networks and minimise flooding and pollution risk.

Market conditions reflected a slower housing market and reduced development activity. Scottish Government data shows new house completions fell 13% to 17,366, the lowest since 2017. Housing starts fell 6% to 14,999, the lowest since 2013. Demand shifted too, with 4,567 technical applications received, down from 4,882 the previous year.

At the same time, open and in-progress applications continued to rise, signalling a shift in the market. Projects are taking longer to complete, which makes clear communication, coordination and reliable service more important throughout the whole project lifecycle, not just at the point of application.

Even in these conditions, we made real progress on the experience for development customers. Our Development Customer Experience Measure (dCEM) reached a record 84.79, up from 82.9 last year, our highest score to date. This reflects a focused, organisation-wide effort to improve how we engage with developers, contractors and housebuilders.

Key improvements included:

- more proactive, consistent communication throughout the development journey
- clearer guidance, simpler processes and proactive customer contact to resolve issues earlier, improving clarity and predictability for development customers.

We will build on this progress. As developments become more complex with more emphasis on surface water management, sustainable drainage and low-carbon infrastructure, we need to do even more to provide early advice, set clear standards and coordinate delivery. In a more challenging market, our focus remains clear: providing a service that is predictable, transparent and easy to work with, helping customers and developers deliver the homes, infrastructure and economic growth Scotland needs.

FOCUS
Consumer Duty Statement

13,773
NEW WATER CONNECTIONS

14,164
WASTEWATER AND SURFACE WATER CONNECTIONS

84.79
CUSTOMER EXPERIENCE MEASURE (dCEM)

SERVICE EXCELLENCE

Independent Customer Group assurance and reflection

ICG provides independent challenge and assurance on how customer views are reflected in Scottish Water's planning and decision making. Its Chair, Agnes Robson, has reflected on the last year:

FOCUS
Independent Customer Group

Customer behaviour change and awareness campaigns

Helping customers understand how they use water and how small changes can make a big difference is becoming increasingly important as we respond to climate pressures and rising demand. Alongside maintaining reliable services, we are using data, technology and targeted engagement to support more efficient water use in homes and communities.

As climate change increases the risk of surface water flooding, we are piloting practical measures to help communities do their bit to help including looking at how they manage rainwater more effectively. A project in Edinburgh is testing simple interventions such as water butts and planters to manage water at source, reducing pressure on sewer systems. Early feedback shows customers value solutions that deliver visible benefits in their homes and neighbourhoods while contributing to wider flood resilience.

CASE STUDY
Innovative hydrant caps protect services

SERVICE EXCELLENCE

Smarter insights, smarter water use

We launched a Domestic Smart Monitoring trial in north-west Dundee to test how better information can identify leakage within customer properties and support lower water use. Early insights suggest a significant share of water supplied to homes may be lost through leaks within properties or on supply pipes, creating an opportunity to reduce leakage and help customers use water more efficiently. The area represents a diverse cross-section of Scottish housing, providing a robust testing ground and helping us understand how usage varies across homes and households.

During the year, we installed 1,113 smart monitors at household water connections, creating one of the most comprehensive datasets on domestic water use in Scotland to date. All customers, except for a defined control group, were given access to detailed information about their water use. Installation is now complete and the project has moved into data analysis and targeted customer engagement to understand what works and how this technology can support long-term behaviour change.

The devices show how and when water is used, with data updated regularly to build a clearer picture of demand. Initial findings show most households (81%) use less than 400 litres of water per day. However, a small number of properties account for a disproportionate share of demand, with just 1% of homes responsible for around 12% of total water use. Monitoring has also identified hidden losses: more than 10% of households show continuous flow on any given day (often indicating leaks within homes or supply pipes) equating to an average of around 150 properties and approximately 16% of total water use in the trial area.

Further analysis suggests almost 20% of water supplied to participating homes may be lost through leaks between the property boundary and within the home, reinforcing the case for targeted action on customer-side leakage alongside work on the wider network.

The next phase of the trial will focus on analysing usage data and working with customers to test which interventions are most effective in reducing losses and improving efficiency. This includes identifying continuous flow patterns, targeting engagement where leaks are likely and assessing how access to detailed consumption information influences behaviour.

Running until 2028, the trial is improving our understanding of how water is used in practice and where targeted interventions can have the greatest impact. This will help shape future customer engagement campaigns, support leakage reduction and inform long-term planning as we respond to climate pressures and rising demand.

1,113

SMART MONITORS INSTALLED IN NORTH-WEST DUNDEE HOUSEHOLDS

1%

HOMES IN STUDY RESPONSIBLE FOR 12% TOTAL WATER USE

SERVICE EXCELLENCE

Changing behaviours to improve customer experience

Small actions can help prevent big problems. Alongside improving core services, we run national customer campaigns that protect Scotland's water and wastewater systems and help reduce disruption for customers.

Campaigns including *Nature Calls, Your Water Your Life, Use Water Wisely and Water Is Always Worth Saving* turn awareness into action, encouraging simple behaviour changes that deliver real benefits for customers and communities.

Nature Calls continues to promote the "3Ps" message, flushing only pee, poo and toilet paper, to tackle one of the biggest causes of sewer blockages. Around 35,000 blockages occur each year, many caused by items that should not be flushed, leading to disruption for customers and avoidable operational costs. By improving awareness and influencing behaviour, the campaign plays a direct role in reducing these incidents and improving service reliability.

Our wider campaigns also support more sustainable water use, particularly during periods of dry weather. During the driest start to the year in over 60 years, customer response to our *Water Is Always Worth Saving* messaging helped reduce demand by around 60 million litres per day after peak usage. This shows the impact of clear, timely communication in supporting system resilience.

We are increasingly using data and customer insight to target campaigns more effectively, so messaging is timely, relevant and focused.

We also make it easier for people to choose sustainable options. Our network of Top Up Taps provides free public drinking water and encourages refillable bottles. Since launching in 2018, the network has saved the equivalent of 21.3 million single-use 330ml plastic bottles – 6.5 million equivalent saved in the last year alone. We now have 132 taps, from Lerwick in the north to Portpatrick in the south, helping communities reduce plastic waste while reinforcing the value of Scotland's tap water as a shared national resource.

Together, these campaigns reduce avoidable pressure on infrastructure, minimise disruption and support a more consistent customer experience. They also contribute to environmental protection and long-term resilience.

FOCUS
Top of The Taps

21.3m
SINGLE-USE 300ML PLASTIC BOTTLES SAVED THROUGH TOP UP TAP USE SINCE 2018

6.5m
PLASTIC BOTTLES SAVED IN THE LAST YEAR ALONE

132
TOP UP TAPS

SERVICE EXCELLENCE

Enabling responsible access

Scottish Water manages around 300 reservoirs across Scotland, supporting essential services and access to some of the country's most valued outdoor spaces. We are committed to enabling responsible, sustainable public access, guided by Scotland's land reform principles and the Scottish Outdoor Access Code.

Our Reservoir Rangers play a key role at priority sites, providing a visible presence, engaging visitors and promoting water safety. They also support local communities through school sessions, events and partnership working with organisations including Police Scotland, the Scottish Fire and Rescue Service and local authorities.

To better understand use of these sites, we will begin recording visitor numbers at our most popular locations from next year. While we encourage responsible access, many sites have limited facilities, including parking and, in some cases, constrained access. Monitoring visitor numbers will help us manage these pressures more effectively and plan future improvements.

In the last year, our rangers recorded hundreds of instances of irresponsible behaviour, including littering, abandoned campfires and unsafe access to water. Changing conditions, including lower water levels, have increased risks, with exposed mud and unstable ground around reservoir edges. In response, we have strengthened joint patrols, community engagement and school outreach. We are also improving access through better signage, interpretation and practical site improvements, including footpaths and fencing. Alongside this, we are using digital channels such as TikTok and Instagram to reach younger audiences and reinforce safety messages.

Increasing number of FOI requests

Freedom of Information (FOI) requests rose to 1,173 in 2025/26 (up 10% on the previous year) driven mainly by environmental and wastewater-related topics such as sewer overflows, flooding investigations and asset information. Requests linked to development services also increased, particularly around drainage, capacity and vesting matters associated with new developments. Overall, requests are becoming more complex, with a greater proportion requiring input from multiple business areas, detailed technical information and more extensive coordination to complete responses.

WATER - OPERATIONAL PERFORMANCE AND NETWORK RELIABILITY

Providing safe, reliable and great-tasting drinking water every day is one of our most important responsibilities and one that is becoming more complex as the climate changes and demands on the system grow.

Our new Water Directorate came into operation in April 2026, bringing together the planning, maintenance and operation of all water assets into a single end-to-end function, managing services from source to tap.

This represents a fundamental shift in how we manage Scotland's water system. By aligning strategy, investment and operations within a single directorate, we are strengthening accountability, improving decision making and enabling a more coordinated response to risk, from long-term planning through to real-time operational delivery.

The new structure brings together previously separate functions into a single, integrated team responsible for the full water cycle leading to improved visibility of system performance, strengthening prioritisation of investment and enabling faster, more effective responses to emerging issues.

This integrated approach is increasingly important as we respond to a more complex operating environment by balancing the need to maintain world-class drinking water quality, ensure reliable supply and adapt to the growing impacts of climate change, ageing infrastructure and changing raw water conditions as a result of climate change.

WATER - OPERATIONAL PERFORMANCE AND NETWORK RELIABILITY

Delivering world class water

We continued to deliver world-class drinking water quality across Scotland, with overall compliance of 99.92%[11]. Drinking water quality in Scotland remains among the highest in the UK, reflecting strong operational control across a complex national system and a robust independent regulatory framework that sets demanding standards to protect public health.

Performance is subject to rigorous independent scrutiny the DWQR, ensuring standards are continuously assessed and challenged. This regulation is fundamental to maintaining public trust and driving improvement.

Overall performance remained high at 99.92% broadly in line with last year's 99.93%. Compliance at water treatment works remained strong, but there were small reductions at service reservoirs and customers' taps. This reinforces the need for targeted investment, including improvements delivered under a DWQR enforcement notice, alongside the growing challenges of variable weather, ageing infrastructure and changing raw water quality. Weather had a major impact on water quality this year. Long periods of warm, dry weather led to enhanced bacterial growth and naturally occurring minerals, such as manganese, building up in some water sources. Higher temperatures also caused treatment chemicals to break down faster, making it harder to maintain the quality standards we want and expect.

Alongside more targeted, risk-based sampling, chlorate sample failures increased from 11 to 45. Chlorate can build up in chemicals used for disinfection during warmer weather and longer storage periods. Although failures remained low overall, this shows how climate conditions are increasingly influencing drinking water quality.

Performance against halo acetic acids (HAA), by-products formed when water containing organic material is disinfected, improved during the year, reflecting early investment and operational improvements. Drier conditions also reduced organic material in raw water, supporting performance.

Further targeted investment is planned at Penwhirn (near Stranraer), Londornoch (near Dornoch) and Glenlatterach (in Moray, near Elgin) to continue reducing risk.

Compliance at customers' taps was slightly lower during the year, reflecting the same weather-related pressures. Lead remains one of the sector's most significant long-term challenges, typically arising from historical plumbing within older properties rather than the public network. Increased sampling in higher-risk areas is improving understanding of these risks and supporting continued progress towards a lead-free system.

Maintaining these standards in the face of increasing climate and operational pressures requires sustained operational focus, targeted investment and continuous improvement. This remains a core priority for the Water Directorate.

CASE STUDY
Drip Feed

99.92%[11]
DRINKING WATER QUALITY COMPLIANCE

1
TEST IS CARRIED OUT ON THE WATER SUPPLIED TO YOUR TAPS ON AVERAGE EVERY 2 MINUTES

[11] 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.

WATER - OPERATIONAL PERFORMANCE AND NETWORK RELIABILITY

Maintaining supply and strengthening resilience

Alongside water quality, maintaining reliable supply remains critical. Performance during the year showed the resilience of Scotland's water network and the effectiveness of coordinated operational response.

Interruptions to supply held up well, supported by proactive interventions that reduced customer impact. There were 5,169 interruptions of between 6 and 12 hours, up on last year's 5,047. There were also 552 interruptions of 12+ hours, up from 532 last year, most linked to the same incident at Rawburn Water Treatment Works in the Scottish Borders. Despite the slight increases, performance remained within target range.

We also improved performance on low water pressure, with 15 properties on the low-pressure register, outperforming our target range of 25 to 40 and marking the lowest position recorded in SR21. Milder weather also helped, with fewer freeze-thaw events affecting the network.

These results reflect a more integrated approach to managing the system, with improved coordination between planning, operations and investment teams enabling earlier intervention and faster response.

We completed our largest-ever water infrastructure investment, the Ayrshire and Glasgow Resilience scheme, delivering a £235 million boost to resilience for almost one million customers across the west of Scotland.

Other projects included a £26 million upgrade to improve drinking water quality and reliability for customers in Keith and surrounding communities. The upgraded works include new treatment technology to improve water quality and reliability. We also completed a £35 million investment programme to improve the reliability and resilience of drinking water supplies across communities in the Hebrides and Skye. Over five years, ageing water mains were replaced and modernised, helping reduce the risk of bursts and interruptions while strengthening the local water network for the future.

Elsewhere, we introduced drought resilience measures in certain areas in the East of Scotland following one of the driest periods in more than 60 years. We invested in operational and network resilience measures linked to reservoirs including Backwater and Lintrathen, where storage levels dropped to around 41% in September 2025. This included enhanced water management, demand reduction measures and adaptation planning for future climate volatility.

At Gladhouse Reservoir in Midlothian, improvement and safety works continue at the site, which supplies drinking water to 150,000 customers. Work includes major spillway refurbishment and wider resilience improvements to help the reservoir operate safely and effectively in the face of increasing climate pressures and more extreme weather. We also progressed major investment at Glenfarg Water Treatment Works, which supplies drinking water to 179,000 customers across parts of Fife and Kinross-shire. We are modernising treatment infrastructure, improving operational resilience, maintaining high drinking water quality standards and securing long-term supplies for communities served by the network.

CASE STUDY
Record investment strengthens water supply for one million people

CASE STUDY
Improving Water Pressure for Communities

WATER - OPERATIONAL PERFORMANCE AND NETWORK RELIABILITY

Tackling leakage across a complex network

Reducing leakage remains a major operational priority and a key focus. We reduced more leakage by volume during the year, reflecting sustained effort and continued investment in detection, repair and targeted interventions. However, performance remained slightly outside our target, with year-end leakage at 453 Ml/d, a small improvement from 454 Ml/d in the previous year. While this is not where we want to be and means we did not meet our target of 450 Ml/d, it does represent continued progress in a highly challenging environment.

We delivered our highest ever cumulative leakage savings of more than 230 Ml/d, which is 20 Ml/d more than the previous year and over 40 Ml/d higher than the average achieved over the past six years. This underlines both the intensity of effort across our teams and the extent to which leakage would increase without sustained intervention.

Scotland's water network spans thousands of miles, including many rural and remote assets, making it inherently more difficult to detect and repair hidden leaks.

This challenge is increasing as infrastructure ages and weather patterns become more extreme. Extended dry conditions through spring and summer, following by periods of sub-zero temperatures during winter, placed additional stress on assets during the year, contributing to higher levels of background leakage and bursts.

Despite these pressures, teams maintained a strong and consistent focus on leakage reduction. Leakage repairs increased 10% compared with last year, supported by continued investment in active leakage control, pressure management and targeted network interventions.

Enhanced monitoring and improved data analysis helped prioritise repair activity in areas of highest risk, while closer collaboration between operational, planning and investment teams strengthened identification of persistent leakage and supported faster response.

The creation of the Water Directorate is enabling a more coordinated end-to-end approach, strengthening how we plan, prioritise and deliver leakage reduction activity across the network and improving alignment between day-to-day operations and longer-term investment decisions. Leakage is not confined to the public network alone with our latest analysis – supported by early findings from the Dundee Smart Monitoring Pilot - indicating around one third of total leakage - approximately 34%, up from 28% in the previous year - occurs on customers' own pipes.

This is typically within the supply pipes that run through gardens and private land. This figure is calculated annually using industry-standard methods based on burst and repair data.

Whilst this is indicative rather than exact, it highlights the important role customers can play in reducing water loss and reinforces the need for continued awareness and support to help identify and fix leaks beyond our network.

We will maintain a strong focus on reducing leakage in the final year of SR21, aiming to reduce further to around 448 Ml/d and create a platform for further improvement in the years ahead. Our Final Business Plan 2027-2033 sets out an ambition to reduce leakage by around 10% by 2033, moving towards levels close to 400 Ml/d. This reflects our continued focus on strengthening network resilience, reducing water losses and protecting Scotland's water resources for the future.

WATER - OPERATIONAL PERFORMANCE AND NETWORK RELIABILITY

Managing drought and emerging risks

The year highlighted the growing challenge of balancing supply and demand in the face of more extreme and variable weather, managing both too little water and too much water across the system.

Lower-than-average rainfall led to drought conditions developing across Scotland in Spring 2025, with the highest number of weekly drought triggers recorded in May. While rainfall supported recovery in the west, dry conditions persisted in the east, with several areas declared by SEPA as being in 'Moderate' or 'Significant' scarcity during late summer.

The Backwater–Lintrathen reservoir system (in Angus, supplying Dundee, Angus and parts of Perthshire) experienced its driest period on record, with levels falling to their lowest in more than 20 years. Low levels also created water quality challenges, including rapid algae growth that can affect water quality in the Loch of Lintrathen, which temporarily prevented its use.

In response, we mobilised a coordinated range of measures to protect supplies and maintain water quality, including:

- construction of a new pipeline from the River Isla (Perth and Kinross / Angus) to the Loch of Lintrathen (Angus)
- optimisation of available water sources
- increased customer engagement through the Water Is Always Worth Saving campaign

These actions helped maintain supplies during a sustained period of pressure and demonstrate the importance of operational flexibility and integrated system management.

More broadly, events during the year reinforced the growing risk of supply-demand imbalance. Currently, six systems across Scotland are not resilient to drought, rising to 13 by 2033 without some intervention. Addressing this will be a focus for investment in SR27. Our Final Business Plan for 2027–33 proposes targeted investment to maintain high standards, strengthen resilience and address emerging water quality risks across Scotland.

Looking ahead, improving customer experience remains a core priority. We are focused on building greater consistency in how we deliver for customers - particularly during incidents and for business users - while continuing to strengthen communication, service resilience and the use of customer insight in decision making across the organisation.

WASTEWATER SERVICES: PROTECTING COMMUNITIES, IMPROVING PERFORMANCE AND BUILDING TRUST

Wastewater services are central to protecting public health, the environment and communities, and are facing increasing scrutiny as expectations rise. Our new Wastewater Directorate will bring together end-to-end responsibility for wastewater planning, operations and maintenance to strengthen how we deliver for customers. It brings together the teams that manage the network "from drain to environment", including sewer networks and pumping stations, wastewater and sludge treatment, operational response, proactive maintenance, performance and compliance monitoring, and the planning and prioritisation needed to target investment where it will have the greatest impact. Creating a single, accountable leadership structure improves coordination, speeds up decision making and strengthens how we respond to incidents. It also supports greater transparency and a sharper focus on the issues customers and communities care about most, including sewer flooding, overflows and river water quality.

This year, our wastewater performance improved both for customers and the environment. We made meaningful progress on what matters most: protecting rivers and coastal waters, reducing the risk of sewer flooding in homes and streets, and being open and transparent about how our wastewater systems operate.

This was delivered against an increasingly complex backdrop with climate change driving more intense rainfall, ageing infrastructure under pressure, tighter environmental standards and growing expectations from customers, regulators and stakeholders. Our operational teams continued to manage a vast and complex wastewater network, responding to changing flow patterns driven by more intense rainfall, increased volumes of rainwater entering sewers and shifting demand throughout the day. Despite these pressures, performance remained stable, demonstrating the resilience of the network and the effectiveness of targeted investment and operational response.

Most customer contacts related to sewer flooding, blocked drains, odour and concerns about local watercourses providing valuable insight into where we focus our operational and investment activity.

We strengthened how we communicate with customers, making it easier to report issues, access information and understand what is happening locally. Improvements included clearer online updates, easier self-service, targeted postcode-based alerts and more accessible wastewater information online.

We significantly expanded monitoring across the network and strengthened data assurance, enabling teams to better understand how the system behaves, particularly during heavy rainfall, and to respond more quickly and effectively when issues arise. We also enhanced our public wastewater website to reflect the installation of new sewer overflow monitors and improved functionality, making information clearer, easier to navigate and more up to date. Together, these improvements are helping to build greater confidence and trust in how wastewater services are managed.

WASTEWATER SERVICES: PROTECTING COMMUNITIES, IMPROVING PERFORMANCE AND BUILDING TRUST

Reducing flood risk for customers and communities

Sewer flooding can have a significant impact on customers and communities, so reducing the risk and protecting homes remains a priority. In 2025/26, we installed mitigation measures at 151 properties, taking the total number of protected properties to 702 in the current regulatory period. By focusing on homes most at risk, these targeted interventions help reduce disruption and damage during severe wet weather.

We aim to investigate every incident of internal sewer flooding within five months so we can understand the cause and, where appropriate, implement appropriate solutions to reduce the risk of sewer flooding.

The number of properties experiencing repeated incidents has fallen, reflecting stronger collaboration between planning and operational teams and a more resilient approach to managing risk.

In 2025/26, 290[12] properties experienced internal sewer flooding. While this was better than our target range of 350 to 400 properties, it was 10 more than in 2024/25. During the year, we invested in known hotspots, particularly in parts of Perth and Dundee, helping to reduce repeat incidents and better protect customers in areas of greatest risk. Mitigation measures included flood doors, smart air bricks that allow ventilation while helping prevent floodwater entering properties, and non-return valves that stop wastewater from backing up into homes, helping to reduce the impact of intense rainfall.

Around 80% of properties in the highest flood-risk categories are now protected, showing the value of a targeted, risk-based approach. We are also working with local authorities to identify opportunities to capture rainwater where it falls through sustainable drainage, helping to reduce pressure on sewer networks while supporting greener, more resilient communities.

[12] This figure includes incidents due to other causes such as blockages and sewer overloading (excluding severe weather events).

702

PROPERTIES PROTECTED FROM INTERNAL SEWER FLOODING IN THE CURRENT REGULATORY PERIOD

80%

OF PROPERTIES AT HIGHEST RISK OF FLOODING NOW PROTECTED

WASTEWATER SERVICES: PROTECTING COMMUNITIES, IMPROVING PERFORMANCE AND BUILDING TRUST

Protecting the environment, reducing pollution

Protecting Scotland's rivers, coasts and ecosystems remains central to wastewater operations. We invested £26 million through the Improving Urban Waters Routemap, our largest annual investment in this programme to date.

This enabled us to resolve 37 unsatisfactory intermittent discharges (UIDs), with a further 12 almost completed and more in development.

These projects focus on locations where overflows have the greatest environmental and community impact, helping to improve water quality, reduce pollution risks and protect the places customers care about most.

At the same time, we are taking a more preventative approach to managing the network. Fats, oils and grease (FOG) remain a leading cause of sewer blockages, contributing to pollution incidents and flooding.

During the year, targeted engagement with higher-risk food service establishments focused on reducing FOG at source, supported by improved guidance materials available in multiple languages.

Monitoring is transforming how we manage environmental risk. By the end of December 2025, more than 1,450 Event Duration Monitors (EDMs) were operational, providing near real-time visibility of overflow activity. This data is monitored by a dedicated EDM team, enabling earlier intervention where issues are emerging and helping prevent pollution incidents before they occur.

The most serious EPIs (Category 1 and 2) were down from 4 to 2 (all wastewater) - continuing the long-term trend of improvement. However, our aim is to achieve zero serious EPIs, and this is a key focus of the new wastewater directorate for the future.

During the year we recorded 191 category 3 EPIs – 8 fewer than the year before (most wastewater related). During the year, only three Category 3 incidents were linked to monitored sewer overflows, demonstrating the value of early intervention.

Our dedicated team also supported targeted investigations, proactive burn walking and more risk-based maintenance activity across the network, helping operations teams respond more quickly and effectively.

All incidents are investigated in detail, with close collaboration with SEPA to confirm categorisation. Understanding incident causes is critical. Around 60% of Category 1–3 EPIs originate in the sewer network, and more than two-thirds are linked to blockages, often driven by the wrong things being disposed of into the sewer including wet wipes and other unflushables.

FACTS

£26m
INVESTED THROUGH THE IMPROVING URBAN WATERS ROUTEMAP

2
MOST SERIOUS EPIs REDUCED FROM 4 TO 2

WASTEWATER SERVICES: PROTECTING COMMUNITIES, IMPROVING PERFORMANCE AND BUILDING TRUST

We strengthened targeted interventions through our Alternative Resolution Management Compliance approach, alongside proactive cleaning across 12 miles of priority sewers. Investment in recycling vactor units (used to pressure wash sewers) has increased in-house capability and improved responsiveness. This proactive, data-led approach is increasingly informing our response to incidents on the ground. Monitoring data is also helping identify where targeted customer awareness campaigns can have the greatest impact in reducing blockages and protecting the network.

However, challenges remain, ageing assets continue to present risk, particularly rising mains, where an increase in Category 3 incidents highlights the need for further targeted investment. We are also aiming to use more nature-based solutions in wastewater management. By slowing flows, improving natural filtration and managing water closer to source, nature-based solutions can reduce reliance on energy-intensive infrastructure while delivering wider environmental, biodiversity and social amenity benefits.

CASE STUDY
Orchard Park: Giving the wastewater network breathing space

Managing surface water through nature-based infrastructure

Managing rainwater more effectively is becoming increasingly important as climate change brings more intense rainfall and places greater pressure on sewer networks. Removing surface water from the system and managing it at source helps reduce flood risk, improve water quality and build more resilient communities.

Across Scotland, we are working with partners and communities to deliver blue-green infrastructure using natural features such as planting, soils and permeable surfaces to slow, store and reuse rainwater. These nature-based solutions complement traditional sewer systems, reducing pressure on sewers while also enhancing biodiversity and creating more attractive places to live and work.

FOCUS
Dundee's pioneering nature-based solutions

WASTEWATER SERVICES: PROTECTING COMMUNITIES, IMPROVING PERFORMANCE AND BUILDING TRUST

Changing behaviours to protect the network and environment

Customer behaviour continues to have a significant impact on wastewater performance. We respond to around over 35,000 sewer blockages each year, at a cost of more than £7 million, with wet wipes a major contributor.

We welcomed the Scottish Government's decision to ban plastic-containing wet wipes from August 2027. We supported this through our Nature Calls campaign, which secured public supporters and backing from organisations including the Marine Conservation Society, Keep Scotland Beautiful and Zero Waste Scotland.

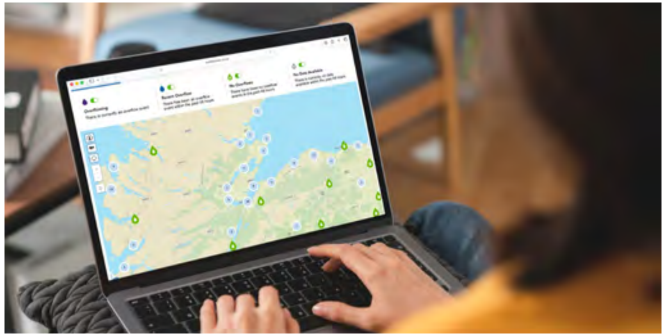
Wet wipes containing plastic are also a significant source of marine litter, breaking down into microplastics that harm rivers, coastal environments and wildlife. Reducing misuse is critical to protecting both infrastructure and the natural environment.

Investing in infrastructure, managing overflows and transforming services

Combined sewer overflows play an essential role in protecting homes and communities during heavy rainfall, preventing sewage backing up into properties and streets. While public debate has intensified, long-term improvement depends on reducing the volume of rainwater entering the network through better drainage, nature-based solutions and coordinated action across sectors.

Public awareness and concern around wastewater overflows has – rightly – continued to grow, with increasing focus from customers, communities, politicians and the media. We recognise the importance of transparency in building trust and understanding, which is why we continued to expand the information we publish on our website relating to our network and overflow activity. Alongside this, we are investing in monitoring, maintenance and long-term infrastructure improvements to reduce environmental impact, improve resilience and support healthier waters.
[Overflow Map - Scottish Water]

We also made progress in transforming how wastewater services are delivered. Modernisation of waste management services has improved customer experience and operational planning, bringing together previously fragmented systems to improve coordination, efficiency and resilience.



CASE STUDY
Reducing odour and working with the local community at Seafield

WASTEWATER SERVICES: PROTECTING COMMUNITIES, IMPROVING PERFORMANCE AND BUILDING TRUST

We are also preparing for a once-in-a-generation transition in asset ownership. Over the coming years, long-term Private Finance Initiative contracts covering around 50% of wastewater services and 80% of bioresources will come to an end, bringing assets back into Scottish Water ownership.

A key milestone was the return of Daldowie and Dalmuir Wastewater Treatment Works (Greater Glasgow). These assets serve significant populations and represent a major step in a phased transition that will bring around 1.2 million additional customers into direct Scottish Water operations.

Further sites including Seafield (Edinburgh) and in Almond Valley, Dundee and the Moray coast will transfer over the coming years, creating a once-in-a-generation opportunity to reshape wastewater services for the future.

Challenges, learning and the road ahead

Delivering wastewater services presents significant challenges. Climate impacts, ageing infrastructure, cost pressures and increasing regulatory scrutiny require careful prioritisation to ensure resources are focused where they make the greatest difference.

A key lesson from the year has been the importance of strong coordination across teams, partners and stakeholders. Clear priorities, effective performance management and open communication are essential to maintaining trust and delivering consistent service.

Looking ahead, we will continue to build on progress by strengthening our use of data and insight, targeting investment where it will have the greatest impact, and working closely with regulators, communities and businesses to reduce risk at source. Our new dedicated directorate will ensure these are priority areas.

RESEARCH AND INNOVATION

Research and innovation are central to how we respond to growing operational, environmental and regulatory challenges and deliver long-term value for customers and communities. From adapting to more variable raw water conditions to reducing greenhouse gas emissions and improving wastewater resilience, innovation is helping us develop practical solutions to real-world problems. These advances support more reliable services, stronger environmental performance and better long-term value for customers.

Our Research and Innovation (R+I) team works across the organisation and with external partners, including academia, industry and consultants, to identify knowledge gaps, test new approaches and accelerate solutions that can be applied at scale.

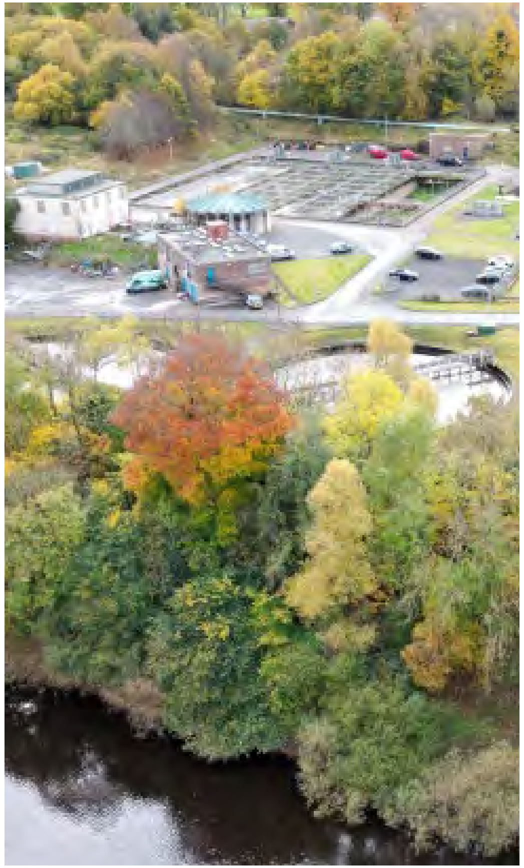
During the year, activity was structured across four core programmes aligned to our strategic ambitions and operational priorities, alongside the Hydro Nation Chair Research and Innovation Programme. This provides a collaborative, mission-led approach to tackling system-wide challenges across Scotland's water sector.

This model continues to deliver strong value. On average, every £1 invested in research and innovation leverages a further £7 through external funding and partnerships, maximising impact while reducing cost to customers.

Our R+I team delivered eight projects during the year, with a further 81 in development, reflecting the long-term and evolving nature of innovation activity. Work included advancing drinking water treatment, monitoring greenhouse gas emissions, improving wastewater resilience to climate change and exploring new approaches to bioresource management.

Investment in skills and capability remains important. Four graduates were hosted within the team during the year, contributing to project delivery and knowledge development, with two progressing into permanent roles.

Hydro Nation Chair
Net Zero - Scottish Water Sector



8
RESEARCH AND INNOVATION PROJECTS DELIVERED

81
PROJECTS BEING DEVELOPED

EVERY
£1
INVESTED IN R+I LEVERAGES AN EXTRA £7 IN EXTERNAL PARTNERSHIPS

RESEARCH AND INNOVATION

Turning innovation into real-world impact

A key focus during the year was accelerating the move from innovation to operational use, ensuring new ideas deliver measurable benefits for customers and the environment.

In drinking water treatment, zeta-potential measurement is improving control of coagulation processes. It gives operators real-time insight into how effectively particles are being removed, replacing reliance on experience and periodic testing with a more precise, data-led approach. This allows chemical dosing to be optimised more accurately, improving removal of organic material, reducing the risk of by-products and lowering operational costs. For customers, this supports consistently high water quality while improving efficiency and reducing unnecessary chemical use.

The development of ceramic membrane technology is also creating new opportunities to strengthen treatment resilience. Pilot systems have been designed and tested, building the technical evidence needed for wider adoption. This provides a pathway for ceramic membranes to move into mainstream consideration, particularly at sites facing complex raw water challenges, helping maintain reliable supplies in changing conditions.

Innovation is also supporting the transition to a circular economy. Trials using Black Soldier Fly larvae for bioresource treatment have shown potential to reduce waste volumes and create new resource recovery opportunities. For customers, this reduces environmental impact and supports more sustainable, cost-effective operations.

Alongside this, the team developed a test bed for nitrous oxide (N_2O) capture and abatement at Hawick Wastewater Treatment Works. This provides a practical platform to test technologies that reduce greenhouse gas emissions at source, supporting our net zero goals while building evidence to inform future investment decisions.

CASE STUDY
Data-led treatment improving water quality and efficiency

RESEARCH AND INNOVATION

Innovating and improving

We sharpened our understanding of what it takes to deliver innovation effectively at scale. Experience from pilot projects highlighted the need for more flexible delivery models, particularly for smaller trials where standard commercial and delivery approaches can slow progress. In response, we strengthened collaboration with suppliers and, where appropriate, brought in specialist contractors to accelerate delivery and improve implementation.

While we continued to progress a broad programme of research and innovation, several projects did not advance at the pace or scale originally anticipated. Some initiatives were delayed, deferred or stopped following reassessment of delivery costs, implementation timescales, regulatory requirements or commercial viability.

This included resource recovery and methane capture projects where the cost and complexity of full-scale delivery increased significantly beyond initial expectations, alongside research affected by regulatory approvals and operational delivery challenges. In other cases, early-stage technologies showed technical promise through pilot activity, but further progress was limited by uncertainty around long-term commercial arrangements or reliable end markets for recovered materials.

We strengthened the route from innovation to adoption. Projects now start with clearer ownership, operational alignment and success criteria, so successful trials can transition more smoothly into business-as-usual delivery.

These changes are increasing the pace of testing and implementation, while keeping effort focused on the initiatives that deliver the greatest value for customers. Research and innovation will play an increasingly important role in shaping future strategy and delivery.

INFRASTRUCTURE INVESTMENT AND RESILIENCE

Delivering for today while preparing for the future

We are investing at a scale not seen for a generation to strengthen and modernise Scotland's water and wastewater infrastructure. Assets built for a different climate must now operate under more extreme weather, tighter environmental standards and rising customer expectations. We invested a record £1.13 billion across projects, helping deliver our second-best performance to date while strengthening resilience across the system.

This work was not only about replacing ageing assets, but about a step change in how the system is designed, built and operated, using data, innovation and lower-carbon solutions to deliver better outcomes and value. This included targeted investment to repair, refurbish and replace critical assets. We achieved 98% of milestones, with major projects delivered around two months early on average.

We manage thousands of projects at any one time, with several hundred active on site, making this one of Scotland's largest and most complex infrastructure programmes. Performance has remained strong, supported by disciplined planning, clear governance and close collaboration with delivery partners.

This also showed in our responses under pressure. Major sewer collapses in Glasgow and Saltcoats required rapid mobilisation. Teams acted quickly to protect services, safeguard the environment and minimise disruption, working with local authorities, other utilities, transport organisations and communities to restore service safely and efficiently.

Alongside delivery, we have strengthened how we manage programmes by improving visibility, accountability and consistency, and by ensuring investment delivers tangible benefits for customers and communities.

£1.13bn
ACROSS PROJECTS

98%
OF MAJOR PROJECTS DELIVERED ON AVERAGE 2 MONTHS EARLY

INFRASTRUCTURE INVESTMENT AND RESILIENCE

Funding investment through strong financial performance

Strong financial performance enabled us to sustain investment while maintaining financial resilience. Careful cost control and stable revenue strengthened cash generation, supporting over £1.1 billion of investment to improve Scotland's water and wastewater infrastructure.

Operating costs were lower than planned due to disciplined cost control and improved efficiency. Combined with steady income, this resulted in higher-than-expected surplus. As a publicly owned organisation, this does not generate returns for shareholders. Instead, it supports reinvestment in the assets and services customers rely on every day.

While total investment was slightly below plan, this reflects the timing and mix of projects rather than any reduction in ambition. Strong cash performance has allowed us to continue investing at pace without increasing financial risk, and to prioritise the areas that deliver the greatest benefit.

Whilst overall delivery of our committed list projects has remained on time and within budget, we recognise that some individual projects have experienced challenges, and we continue to learn from those experiences to strengthen future delivery.

An example was an upgrade at Rosebery Water Treatment Works in Midlothian, to enhance drinking water resilience, improve operational flexibility and support future growth across the area. The project involved substantial new treatment infrastructure and network improvements to strengthen long-term supply reliability for local communities.

Delivery was affected by several factors, including extended negotiations with landowners and delays in securing a permanent power supply.

As the project progressed towards commissioning, additional challenges emerged relating to control system integration, operational constraints and the complexity of software testing and optimisation across the site. These factors impacted the overall programme and extended the route to full operation. While the works entered supply later than originally planned, the upgraded site became operational during the year.

FOCUS
Delivering SR21

CASE STUDY
Major investments in Invercannie Water Treatment Works

INFRASTRUCTURE INVESTMENT AND RESILIENCE

Delivering complex infrastructure

A key milestone this year was the completion of Herricks Water Treatment Works in Aberdeenshire, a £26 million investment delivering 2.1 million litres of drinking water per day, through close coordination across operational and capital teams.

Another major project was delivered at Mannofield Water Treatment Works in Aberdeen, where extensive upgrades were completed in response to a DWQR enforcement notice, including new treatment processes, replacement dosing systems and full refurbishment of filtration asset.

CASE STUDY
Delivering under pressure

Innovation and efficiency in delivery

Innovation continues to reshape our investment programme delivery. Where appropriate, we have swapped traditional potable tank construction from traditional concrete to stainless steel as a lower-carbon solution, reducing environmental impact while maintaining performance and durability.

This focus on innovation and efficiency is reflected in our 50/30 transformation programme, which aims to reduce mobilisation time by 50% and cost by 30%. By the end of the year we had reduced the time to get to site for our internal delivery team (with a focus on projects investing less than £10 million) by around 35%, while mobilisation costs reduced by more than 40%, demonstrating how improved delivery approaches are generating real value.

INFRASTRUCTURE INVESTMENT AND RESILIENCE

Delivering value for customers, communities and the environment

Our investment programme delivers far more than infrastructure. It supports the economy, creates jobs and contributes to Scotland's environmental ambitions. We work with around 440 supply chain partners across approximately 180 frameworks, with 90% of spend in Scotland and 80% of suppliers classified as SMEs (small to medium sized enterprises).

Our supply chain spend for the year was £1.4 billion, investment that supported jobs, skills and economic activity across the country, including more than 2,000 apprentices and graduates across the current regulatory period. **4-consulting Social Value Report.**

At the same time, we are reducing the environmental impact of how infrastructure is delivered. Our capital programme accounts for around 50% of our total carbon footprint, making it central to our Beyond Net Zero ambition.

DURING THE YEAR, WE:

- Introduced low-carbon steel, reducing emissions by around 70%.
- Committed to 20,000m³ of low-carbon concrete.
- Delivered 4,635 tonnes of carbon reduction through alternative fuels.

CASE STUDY
Low Carbon Concrete pledge is UK first

We are increasingly working with natural systems to deliver more sustainable outcomes. Nature-based solutions are now embedded in project design, helping to manage surface water, reduce pressure on networks and improve environmental performance.

We aim to deliver around 10% of our investment programme through nature-based solutions - a step change in our approach that can unlock social and environmental benefits while reducing whole-life costs compared with traditional approaches.

440
SUPPLY CHAIN PARTNERS

£1.4bn
SUPPLY CHAIN SPEND

90%
OF SPEND IN SCOTLAND

INFRASTRUCTURE INVESTMENT AND RESILIENCE

Balancing resilience, responsiveness and affordability

Responsive investment remained inherently volatile, reflecting the reactive nature of operational incidents and the need to respond quickly to protect customers and the environment. At one stage, forecasts indicated potential spend of more than £290 million against a budget of £264 million, highlighting the pressures created by incident-driven activity and in-year operational demands.

In response, we strengthened visibility and accountability, improving forecast confidence and enabling clearer prioritisation of spend based on customer value and operational risk. This disciplined approach supported cost and risk trade-offs, helping maintain service resilience while protecting affordability. As a result, year-end spend was brought back to £257 million, demonstrating tighter control in a highly reactive environment.

Delivering investment at this scale continues to present wider challenges.

Climate change is placing increasing pressure on infrastructure, while global market volatility is driving cost increases. For example, the cost of Hydrotreated Vegetable Oil (HVO) increased 16%, adding £568,000 of in-year pressure, prices also increased for other fuels. At the same time, competition for skills, materials and specialist capability is intensifying across the wider infrastructure sector.

Supply chain pressures affecting the availability and lead times of key materials and equipment have returned to pre-Covid levels. The increased demand across the infrastructure sector could create risks around delivery capacity, with competition for skilled labour and specialist contractors continuing to intensify. Alongside our supply chain we have put in place solid plans to mitigate these risks.

Project delivery is often dependent on external factors such as planning approvals, land access and utility connections, which can introduce uncertainty and affect timelines. At the same time, more variable and less predictable weather patterns are increasing uncertainty, making it more challenging to plan and prioritise investment with confidence.

As monitoring and data improve, prioritising investment based on risk and customer impact is becoming more complex, requiring more sophisticated decision making and closer coordination across teams.

We also faced the challenge of managing a strong pipeline of projects within annual funding limits. This was primarily an issue of timing rather than overall affordability. To manage this, some projects were paused or rephased before construction began, ensuring investment remained aligned to available funding. Expectations around transparency, service performance and value for money continue to rise, increasing the need to demonstrate clearly how investment decisions benefit customers and communities.

These decisions were taken carefully, recognising the value each project delivers. Through close collaboration and strong governance, we maintained control of delivery while protecting affordability for customers.

INFRASTRUCTURE INVESTMENT AND RESILIENCE

Investing for the long term

The progress made during 2025/26 provides a strong foundation for the future. **Our Business Plan** proposes total investment (in 2024/25 prices) of £13.4 billion for 2027–33, including £8.1 billion of capital investment, a 35% increase on the current period. This reflects the scale of investment required to maintain and improve services while responding to climate pressures and rising expectations.

Delivery will be supported by our new Enterprise model, bringing together partners in long-term, outcome-focused collaboration. This represents a fundamental shift in how infrastructure is delivered by improving efficiency, strengthening innovation and enabling better outcomes at scale.

FOCUS

The Enterprise – A New Model for Delivery

TOTAL INVESTMENT
£13.4bn
FOR 2027-33

INCLUDING
£8.1bn
OF CAPITAL INVESTMENT

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

A whole-system response to climate change

Delivering net zero means reshaping how we design, build and operate Scotland's water system. From how we generate and use energy to how we manage water in the environment, we are embedding lower-carbon, more resilient approaches across our operations while continuing to protect and enhance Scotland's natural environment. Many of our net zero interventions also deliver wider business benefits, including better source water quality, reduced flood risk, lower whole-life costs and reduced exposure to fragile supply chains.

We remain committed to addressing the twin challenges of climate change: reducing greenhouse gas emissions that contribute to global heating, while adapting our services, assets and practices to ensure a reliable, resilient and sustainable water service for Scotland. These challenges are becoming more immediate.

During 2025/26, extended periods of unusually warm, dry weather affected water resources and required operational interventions to maintain secure supplies, reinforcing both the urgency of reducing emissions and the need to strengthen resilience.

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

Progress towards Net Zero - strong delivery, evolving challenge

We continued to make strong progress against our in-year performance Net Zero Emissions targets. Measures delivered during the year helped save over 10,300 tonnes of CO_2 equivalent, taking the cumulative annual carbon benefit to around 49,000 tonnes since 2021[13].

We expanded the boundary of our reported operational emissions to include emissions linked to the chemicals used in our water and wastewater treatment processes. These fall under what is known as "Scope 3" emissions – indirect emissions generated through our supply chain, including the production and transport of the chemicals we purchase and use to deliver services. This change reflects updated Scottish Government statutory guidance for public bodies, which now requires organisations to report a broader range of indirect emissions alongside those generated directly from their own operations.

We continued to reduce operational emissions, from 220,434 tCO_2e in 2024/25 to 207,361 tCO_2e in 2025/26. This underlying reduction was driven by a lower carbon intensity in grid electricity, alongside continued energy efficiency improvements, with around 4GWh of energy savings delivered during the year. Further reductions were achieved through increased use of lower-carbon Hydrotreated Vegetable Oil (HVO) as an alternative to diesel.

By including emissions associated with chemicals used in our water and wastewater treatment processes this added an estimated 18,945 tCO_2e to our operational footprint. As a result, the total reported operational footprint for 2025/26 was 226,306 tCO_2e. With 2025/26 now established as the baseline year for these additional emissions, we will begin work to identify opportunities to reduce and optimise chemical use, including the transition to lower-carbon alternatives.

At the same time, our emissions profile is becoming more complex. While grid electricity remains the single largest contributor, for the first time it now accounts for less than half of our overall emissions footprint.

Process emissions are the next biggest source of emissions, covering the methane and nitrous oxide associated with the wastewater service. During 2025/26 the UK Greenhouse Gas inventory adopted new emission factors for wastewater treatment process emissions. These are significantly higher than used previously, and the UK water sector is presently working to adopt these factors. We will begin reporting these updated factors from 2026/27.

This is expected to have a material impact on the pathway to achieve net zero. This does not mean that the goal is not achievable. It means that we will need to undertake further work into the pathways, technologies and opportunities to mitigate emissions in future investment periods.

[13] Carbon savings relate to internal initiatives and represent carbon benefit rather than reported footprint

OVER
10,300
TONNES OF CO_2 SAVED

49,000
TONNES ANNUAL CARBON BENEFIT SINCE 2021

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

Decarbonising operations - energy, efficiency and renewables

We are continuing to deliver renewable energy and improving efficiency across our operations, recognising that as one of Scotland's largest energy users, how we generate and use energy is central to achieving net zero.

We delivered 4.51GWh of energy efficiency improvements across 40 projects, primarily focused on wastewater assets. Around half of this benefit came from upgrades to heating and lighting systems at major sites, with the remainder delivered through improvements to pumping and treatment processes. This work has been complemented by a wider programme across our office, laboratory and depot estate, identifying 50 additional opportunities to reduce energy use.

Alongside this, we delivered a total of 3.93GWh of new renewable capacity, of which 3.88GWh was from projects delivered by Scottish Water Horizons.

One of these projects is the first phase of a major solar development at our main office in Stepps, near Glasgow.

The site has an annual consumption of 1.3GWh and the solar car port being fitted will produce 0.87GWh - representing a significant step forward in onsite renewable generation. Nearly 65GWh of renewable energy was generated in the year, our highest ever level.

Across our operational estate, targeted investments are delivering measurable benefits. At Roberton Water Treatment Works in the Scottish Borders, 450 solar panels generate around 0.21GWh of renewable electricity each year, with around 65% used on site. On the Isle of Bute, solar installations at Loch Ascog and Rothesay generate approximately 0.37GWh annually, reducing reliance on grid electricity and cutting emissions by around 73 tonnes of CO_2 equivalent.

We are also harnessing energy from existing assets. At Whiteadder Reservoir in East Lothian, a £3 million hydro scheme generates around 0.82GWh of renewable electricity each year, offsetting approximately 30% of the energy used by a major regional pumping station and reducing emissions by around 111 tonnes of CO_2 equivalent annually.

FOCUS
Renewable generation hits record level

CASE STUDY
Stepps Solar Programme

4.51GWh
OF ENERGY EFFICIENCY IMPROVEMENTS ACROSS 40 PROJECTS

NEARLY
65GWh
OF RENEWABLE ENERGY GENERATED IN 2025/26

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

Decarbonising transport - transitioning our fleet

Decarbonisation is also extending to how we move people and materials. We introduced our first fully electric HGV tanker, one of the first of its kind in the UK, alongside a further 24 electric vans. This brings our fleet to 212 electric vans and 562 electric cars, supported by 475 charging points across our sites. Our car fleet is now fully electric, with over 10% of vans transitioned.

Alongside electrification, we have significantly increased the use of Hydrotreated Vegetable Oil (HVO) as a lower-carbon alternative to diesel for vehicles not yet able to transition to electric. Supported by new fuelling infrastructure at key sites, this has already delivered over 2,000 tonnes of CO_2e savings.

CASE STUDY
First electric HGV tanker and decarbonising heavy transport

CASE STUDY
HVO fuel roll out and reducing emissions from fleet operations

774
ELECTRIC VEHICLES

100%
CAR FLEET FULLY ELECTRIC

10%
VAN FLEET FULLY ELECTRIC

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

Carbon reduction and resilience together

Nature-based solutions are playing an increasingly important role in reducing emissions while strengthening water service resilience to climate change. Restoring our carbon catchments helps improve raw water quality, resilience to floods and droughts and enhances biodiversity.

We restored 458 hectares (ha) of peatland, primarily within the Loch Katrine and Backwater catchments, building on strong progress in previous years. At Loch Katrine, over 260 ha of degraded peatland have now been restored supporting a water source serving over one million customers. At Backwater Reservoir in Angus, restoration has reached 338 ha, with plans to extend this to over 500 ha.

Alongside rural catchment projects we are expanding blue-green infrastructure in our cities in partnership with local authorities. An example is in Union Street, Dundee, where permeable surfaces, planting and shallow storage areas capture and slow rainfall which reduces flood risk and eases pressure on the sewer network.

These approaches highlight how natural and engineered systems can work together to reduce carbon, improve water quality and strengthen resilience.

Woodland creation is also contributing to both carbon capture and resilience. During the year, 240 ha of new woodland were created across our landholdings, including 67 ha of planting and 20 ha of drone-seeded montane woodland at Talla Reservoir in the Scottish Borders.

Montane woodland is a rare type of native high-altitude woodland found close to the natural tree line in upland areas, typically made up of hardy native species such as dwarf birch, juniper, rowan and Scots pine which are adapted to harsh mountain conditions.

This work forms part of our wider 'Water Woods' approach, helping improve long-term water quality resilience, enhance biodiversity, reduce erosion and support carbon capture within some of Scotland's biggest drinking water catchments.

CASE STUDY
Talla 'Water Woods': innovation in woodland creation

CASE STUDY
Restoring natural carbon stores

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

Adapting to climate change and increasing pressure on services

Adapting to a more volatile climate is now integral to how we plan and operate our services. Extreme weather remains one of the most significant challenges we face.

During 2025, some areas of Scotland received less than half of their average rainfall, with parts of the south experiencing less than one third. In Angus and Fife, some locations experienced ten consecutive months of below-average rainfall. These conditions increase the risk of water scarcity, place pressure on local supplies, water quality and ecosystems.

In response, we have increased monitoring and operational readiness to protect services, although the unpredictability of weather patterns continues to present challenges. Recognising that these risks are shared across sectors, we have strengthened collaboration, working with partners, including Network Rail to establish the Climate Ready Infrastructure Scotland Forum. This aims to bring together infrastructure operators to develop more coordinated approaches to resilience.

CASE STUDY
Reducing embodied carbon through design

Decarbonising investment by transforming how we build

In addition to operational emissions, we are addressing the carbon associated with how we design and deliver infrastructure. Emissions from capital investment, covering materials such as concrete and steel and construction activities, are equivalent in scale to our operational footprint.

Our investment for the year is estimated to have generated around 111,000 tCO_2e of embodied emissions. Reducing this requires action across the full lifecycle of delivery. We continued to make strong progress, maintaining our PAS 2080 accreditation - a specification developed in the UK that sets out how organisations should measure, manage and reduce whole-life carbon across infrastructure assets.

We have also started working more closely with our supply chain to introduce lower-carbon materials and approaches.

We have taken a leading role in this area, becoming the first organisation in the UK to commit to an Advance Market Commitment for low-carbon concrete. This will see 20,000 cubic metres procured over five years - approximately 30% of annual usage - helping accelerate the development and adoption of lower-carbon materials.

We are also introducing low-emission steel, expanding the use of recycled aggregates and trialling battery-powered plant and mobile generators, which have the potential to reduce emissions by at least 13% over ten years while delivering cost savings of up to 80%.

Innovation is also reshaping how infrastructure is delivered. Timber modular build kiosks reduce embodied carbon by more than 74%, while supporting circular economy principles using timber sourced from Scottish Water land.

CLIMATE AND ENVIRONMENTAL SUSTAINABILITY

Challenges shaping future delivery

While our progress has been strong, challenges remain and will shape future delivery. The expected increase in process emissions reporting will have a material impact on current net zero timelines, requiring further innovation and investment. Some peatland projects have been delayed due to challenges in securing agreement from landowners and tenants, while progress in establishing fully ethical solar supply chains has taken longer for use at smaller scales on our construction sites.

At the same time, increasingly volatile weather patterns continue to place pressure on water resources and operational planning. These challenges reinforce the need for continued innovation, collaboration and long-term investment.

Looking ahead, we will focus on further reducing emissions across our operations and fleet, improving measurement and control of methane and nitrous oxide emissions, expanding the use of low-carbon materials and design approaches, increasing carbon capture through land management and strengthening partnerships across sectors to deliver shared solutions.

READ MORE
Streamlined Energy and Carbon Reporting (SECR)

TCFD
Risk Disclosures 2025/26

PEOPLE, SKILLS AND ORGANISATIONAL CULTURE

Our ability to deliver now and into the future depends on our people. We need to ensure we build the capability, leadership and culture needed to meet increasing demands and expectations.

Our People Directorate focused on strengthening the foundations needed to support Scottish Water through a period of significant change; from organisational transformation and major investment planning to operational and industrial relations challenges.

A key milestone was the development of a new People Strategy, which sets clear ambitions for the next regulatory period. It is designed to ensure we have the right skills, leadership and culture to deliver our strategic ambitions, support our evolving operating model and respond to the increasing demands of a changing environment.

Supporting performance, wellbeing and engagement

Supporting our people and their wellbeing remained a core focus throughout the year. We introduced balanced hybrid working to help colleagues manage commitments outside work, while maintaining the connection, collaboration and performance our customers rely on. We also strengthened access to support through refreshed occupational health services and an enhanced Employee Assistance Programme, so help is available when it is needed. Our employee engagement score was 73%, measured through our new Qualtrics platform, which gives deeper insight into colleague experience and helps us target improvements that make a real difference.

We strengthened how we support performance and development. During the year, we embedded our 'My Story' approach, moving from an annual appraisal to regular, meaningful conversations between line managers and colleagues about objectives and their development. These discussions are linked to Scottish Water's purpose and strategic ambitions, supported by improved systems and better visibility of performance across teams.

We delivered operational improvements across core systems and processes. Workday - our digital people and finance system - is used to manage employee information, payroll, recruitment, learning and organisational data. During the year it was simplified and optimised, including the addition of absence reporting. We also introduced a new organisational design approval process to strengthen governance and ensure structures are aligned to future needs.

Recognition also plays an important role in reinforcing our culture. Through our Going the Extra Mile (GEM) awards, customers can recognise colleagues, and those working on our behalf, who provide exceptional service and care. We received 2,202 GEM award nominations from customers during 2025/26, an 89% increase on the previous year. We believe this increase reflects, in part, stronger promotion of the awards during direct customer interactions.

2,202
GEM AWARD NOMINATIONS RECEIVED FROM CUSTOMERS

89%
MORE GEMS SINCE 2024/25

73%
EMPLOYEE ENGAGEMENT SCORE

PEOPLE, SKILLS AND ORGANISATIONAL CULTURE

Pay and industrial relations

We experienced a protracted and complex negotiation of the annual pay award, which included a period of industrial action by all three recognised trade unions. This was a challenging period for the organisation, requiring careful management to balance the needs of our people with our responsibility to maintain essential services for customers and communities across Scotland.

Throughout the negotiations, we remained committed to open, transparent and respectful dialogue with our employees and union representatives. Regular communication was maintained to ensure colleagues were informed and supported, while constructive engagement with unions continued with the aim of reaching a fair and sustainable resolution.

Robust contingency plans were implemented to protect service delivery, and these proved effective in maintaining operational performance and minimising disruption for customers. The financial impact of the settlement and associated actions was managed within existing budgets, reflecting disciplined financial stewardship during a period of pressure.

The experience reinforced the critical role of effective industrial relations in delivering our public service. We have taken time to reflect on the lessons from this period, working jointly with our unions to strengthen relationships, improve mutual understanding and create more effective channels for employee voice. This is not only about avoiding future disruption, but about building a more collaborative environment that supports better decision making for our people and our customers.

These learnings directly informed the approach to the 2026/27 pay round. We reviewed and streamlined the negotiation process, enabling more focused and constructive discussions over a shorter timeframe. This resulted in agreement on a two-year pay deal, which was subsequently endorsed through a union ballot. The outcome reflects a shared commitment from all parties to move forward positively, with a stronger foundation for future engagement.

PEOPLE, SKILLS AND ORGANISATIONAL CULTURE

Planning for a changing workforce

To continue to deliver the vital service our customers rely on, workforce planning remains a key focus. Around 30% of our workforce is aged over 55, and 68% is male, highlighting the need to attract a more diverse workforce and plan for future skills requirements.

We are developing a strategic workforce plan to address these challenges, ensuring we have the capability, capacity and diversity needed over the next decade.

Alongside this, we are investing in skills for a more digital future. During the year, over 1,100 employees received training in AI, data and insight-led decision making, with a further 300 undertaking self-directed learning.

These actions support our wider equality outcomes and ensure our workforce reflects the communities we serve, while equipping colleagues with the skills needed for a modern, digitally enabled organisation.

Preparing our people for what comes next

As we prepare for the next regulatory period, our focus is on ensuring our people are ready to deliver. This includes embedding the new operating model, strengthening leadership and succession pipelines, and continuing to simplify and improve people policies and processes.

We will also continue to work closely with our trade unions and colleagues across Scottish Water, particularly as we adopt new technologies and ways of working, ensuring change is delivered responsibly and with the full engagement of our workforce.

By supporting our people to develop, perform and thrive, we are building the capability needed to deliver for customers, communities and the environment for now and in the future.

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.

PEOPLE, SKILLS AND ORGANISATIONAL CULTURE

Inclusion, diversity and fair work

We are nothing without our people. Creating an inclusive, supportive and fair workplace helps us attract and retain talented colleagues, strengthen our culture and deliver better outcomes for customers and communities across Scotland.

We continue to make progress against our Public Sector Equality Duty, embedding equality considerations into decision making, policies and service delivery. We are focused on improving representation, supporting under-represented groups and ensuring all colleagues have access to opportunities to develop and progress.

We are proud to be a great place to work, reflected in strong retention and long employee service across the business. At the end of March 2026 our attrition rate was 6.6%, this provides us with a high level of stability. Internal mobility was also strong for the year creating internal opportunities for our people. Many build long-term careers with us, helping retain the skills and experience needed to deliver essential services every day.

We also invest in the next generation through our Modern Apprenticeship and graduate programmes, creating opportunities for people from a wide range of backgrounds to build careers in the water sector.

By working with schools, colleges and community partners, we help develop future skills while supporting local employment, including in rural and more deprived areas, and creating wider social value through the work we deliver across Scotland.

We promote fair work principles including fair pay, flexible working, wellbeing support and strong employee voice. By fostering an inclusive and supportive environment, we are building a diverse, engaged workforce ready to meet the challenges ahead.

We continue to publish **Gender Pay Gap** information as part of our commitment to equality, diversity and transparency. Internal analysis undertaken at the end of 2025 showed no median gender pay gap across the organisation, meaning women and men received the same median pay, while average pay was 0.57% higher for women.

CASE STUDY
Investing in the next generation

PEOPLE, SKILLS AND ORGANISATIONAL CULTURE

Health, safety and wellbeing

We are committed to creating safe, healthy and supportive environments for our people, partners and the communities we serve. Safety, health and wellbeing are integral to our culture, and everyone has the right to go home safe and well, every day.

We have delivered a significant step change in our approach in recent years that has seen the business strengthen our systems, standards and ways of working, helping drive improved performance. This has included embedding safer behaviours, strengthening leadership and improving how risk is managed across Scottish Water and our broader supply chain.

This is underpinned by our Beyond Zero Harm ambition, which moves us beyond compliance towards a culture where risk is actively managed, people feel confident to speak up, and safe delivery is embedded in everyday decisions.

We continued to strengthen our performance across key health and safety measures, alongside increased leadership engagement, behavioural safety activity and closer integration with our supply chain partners. This included continued roll out of our Beyond Zero Harm programme across operational and capital delivery activities, with a growing focus on proactive risk management, learning from incidents and creating psychologically safe working environments.

Our approach increasingly extends beyond our organisation alone. We hosted our second Beyond Zero Harm Industry Collective, bringing together senior leaders from across our supply chain to share learning, promote consistent standards and support a more collaborative approach to safety, health and wellbeing across the sector.

We also continue to benchmark our performance and approach against other organisations and sectors, helping ensure we continue to learn, improve and apply leading practice as we deliver one of Scotland's largest infrastructure and operational programmes.

Supporting wellbeing, including mental health, remains a key priority. Mental health-related absence continues to represent around one third of all sickness absence cases and has remained broadly steady as a proportion of overall absence. In response, we continue to focus on supporting mental health across our workforce through initiatives including Mental Health First Aiders, our Employee Assistance Programme, mental health training for leaders, and a targeted mental health awareness campaign will be rolled out this coming year.

During the year, we focused on the fundamentals that matter most which is how work is planned and controlled, how risk is identified and managed, and how leaders set expectations for safe delivery. Through our We Care, Your Safety, Our Partnership programme, we strengthened leadership visibility, improved supervisory capability and embedded clearer expectations across activities.

This was supported by practical improvements in systems and ways of working, including increased completion of essential training, continued growth in safety observations and hazard reporting, and more open and consistent conversations about safety, health and wellbeing.

This focus delivered measurable improvements. However, one serious incident during the year resulted in life-changing harm.

This is unacceptable. It reinforces the need for relentless focus on learning, assurance and the consistent application of controls.

PEOPLE, SKILLS AND ORGANISATIONAL CULTURE

KEY PERFORMANCE AREAS INCLUDED:

Serious incidents reduced from **8 last year to 4**

Lost Time Accidents reduced from **27 to 11**

RIDDOR-reportable injuries reduced from **13 to 10**, with frequency rate improving from 0.10 to 0.07

Utility strikes reduced from **76 to 49**, with network avoidance improving to 99.83%

These results compare strongly across the UK water sector and support our ambition to be a leading performer.

We also strengthened the control of high-risk work through the continued roll out of our digital Access Control permit-to-work system. This provides stronger governance, real-time visibility and improved assurance of high-risk activities. Through Beyond Zero Harm, we continued to work closely with partners and the supply chain as a single delivery community, raising expectations while sharing learning and best practice.

High potential incidents continue to occur, increasing from 7 to 12 over the year. We attribute this rise as a reflection of encouraging a more open and honest reporting culture. We highlighted how each incident provides an opportunity to address immediate causes and to reflect, learn and look at ways to improve.

The scale and complexity of our operations presents inherent risk. We operate across thousands of sites with a large and diverse supply chain, delivering complex and high-risk activities every day. During the year, we initiated a review of our process safety arrangements, supported by external expertise, to strengthen ownership, competence and system integration.

We also saw an increase in slips, trips and falls, which over a short period accounted for a significant proportion of lost working days and resulted in hospitalisations. A company-wide Stand Down for Safety reinforced fundamentals and encouraged open dialogue across all roles. Electrical strikes have plateaued and remain a priority due to their potential severity, reinforcing the need for continued focus on planning, supervision and control of work.

Our progress during the year demonstrates clearer expectations, stronger leadership and greater shared ownership of safety across our organisation and supply chain. Investment in leadership capability, wellbeing and psychological safety is helping create environments where people feel confident to speak up, challenge unsafe conditions and support one another.

Our focus is now on sustaining performance while embedding long-term cultural change. We will continue to strengthen leadership capability, enhance dynamic risk assessment and improve supervision of high-risk activities, including targeted work on high-voltage excavation and common causes of harm such as slips, trips and falls.

We will also introduce a Beyond Zero Harm induction for everyone working for, or on behalf of, Scottish Water, reinforcing consistent expectations across our operations and supply chain, while continuing to strengthen process safety and improve learning from incidents and near misses.

CASE STUDY
Back to Basics

DIGITAL, DATA AND OPERATIONAL RESILIENCE

Digital technology and data are playing an increasingly important role in strengthening operational performance, improving customer experience and supporting our largest-ever investment programme.

During the year, we modernised core systems, expanded real-time operational insight and introduced new tools that help teams respond more quickly and make better decisions. Together, these developments are enabling a shift from reactive to more proactive, data-led operations, improving resilience, reducing risk and delivering better outcomes for customers and the environment.

A major focus has been updating core operational and asset management systems. We have replaced legacy platforms, some of which were more than 20 years old, with a modern enterprise asset management system.

Improving visibility of assets, enabling more proactive, risk-based maintenance and helping prevent equipment failures and unplanned outages. In wastewater operations, a new digital waste management system is improving the planning of around 3.3 million miles of tanker movements each year, optimising routes, reducing fuel use and lowering emissions.

We also developed a secure, cloud-based Common Data Environment to enable us and our delivery partners to share designs, plans and project data in real time.

We introduced a streamlined and secure approach to partner access, allowing organisations to connect using their own credentials rather than duplicating accounts, improving security and enabling people quicker access to data.

DIGITAL, DATA AND OPERATIONAL RESILIENCE

Using data to drive performance and insight

Understanding what matters most to customers and responding quickly is central to delivering high-quality services. During the year we enhanced our insight tools to bring customer and operational data together, helping teams identify emerging issues and act more effectively.

Our Customer Powered Insights Dashboard (CuPID) provides a near real-time view of customer contacts, updated every 15 minutes and covering activity over the previous four days. Alongside this, the Community Metrics and Analysis Platform provides a longer-term view of service performance, combining operational data with customer perception insights to create a 'temperature check' of how communities are being served.

This allows teams to move more quickly from insight to action, targeting interventions where they will have the greatest impact for customers. These tools enable more targeted responses and better-informed investment decisions.

Real-time digital monitoring and advanced analytics are also helping us manage complex operational situations more proactively and reduce risk. During planned maintenance at St Nicholas Sewage Pumping Station in St Andrews, engineers used digital monitoring technology to track wastewater levels and flows across multiple upstream sites. This provided system-wide visibility, allowing teams to safely carry out repairs without the need for temporary over-pumping or tankering, reducing environmental risk, avoiding additional cost and maintaining service.

We are also using advanced inspection technologies to better understand asset condition. In Dundee, an in-pipe inspection device travelled approximately 2.8 miles within a live trunk main supplying around 100,000 customers, collecting detailed condition data without interrupting supplies. This enables targeted maintenance, reducing the risk of bursts and improving long-term resilience.

Alongside this, increased use of predictive analytics is helping identify assets at risk of failure and enabling earlier intervention, supporting a shift towards more proactive, data-led management of our infrastructure.

Our Compass transformation programme is being used to bring together operational data, digital tools and asset insight to strengthen how we manage our infrastructure. During the year, more than 200 remote resets of wastewater pumps and combined sewer overflow screens were completed using existing telemetry systems. This allows faster restoration following alarms, reducing site visits, improving response times and increasing efficiency.

MORE THAN
200
REMOTE RESETS OF WASTEWATER PUMPS AND COMBINED SEWER OVERFLOW SCREENS WERE COMPLETED

EVERY
15
MINUTES THE CUSTOMER CONTACT DATA UPDATED

DIGITAL, DATA AND OPERATIONAL RESILIENCE

Improving customer experience and resilience

Customers increasingly expect to interact with services digitally, at a time that suits them. We enhanced our website and digital contact channels, making it easier to report issues, track incidents and access service updates.

Our online incident map provides real-time information on outages, planned work and restoration times, while our postcode-based text alert service continues to expand. More than 65,000 customers are now registered, receiving targeted updates about incidents and planned works in their area. Customers can register multiple postcodes, helping families and communities stay informed.

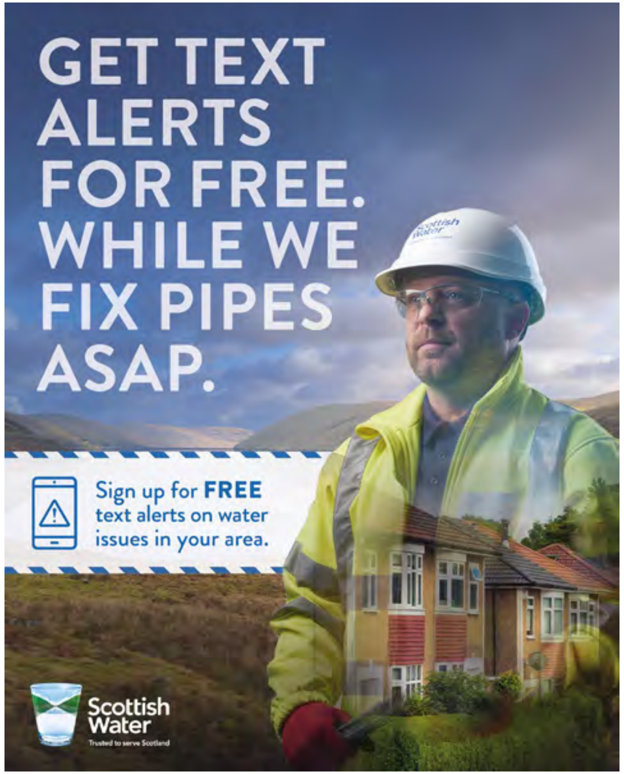
Digital reporting continues to increase, enabling faster resolution of routine enquiries and allowing contact centre teams to focus on more complex cases. This shift is improving responsiveness and helping us deliver a more personalised, timely service for customers.

We are also linking operational data more closely with customer communication systems to provide more accurate, proactive updates during incidents.

As a provider of critical national infrastructure, protecting our systems, assets and data from cyber threats remains a core priority. We strengthened cyber resilience across operational and business systems, including enhanced network monitoring, improved threat detection and response capabilities, and stronger protections across treatment works and networks. We also stepped up our preparedness to minimise harm should a threat penetrate our defences, strengthening incident response, containment, service continuity and recovery arrangements.

We also continued to align with national cyber security guidance and worked closely with sector partners and government agencies to share intelligence and best practice. In addition, we simulated a ransomware attack to stress test our response and recovery planning. The learnings from this will help us limit impact, manage communications better and recover faster should our strong defences be breached.

We introduced strengthened governance for emerging technologies, including an Artificial Intelligence assurance framework to ensure all use of AI is transparent, secure and focused on public value. We met all regulatory cyber security requirements during the year and experienced no major incidents affecting services.



DIGITAL, DATA AND OPERATIONAL RESILIENCE

Delivering value now and building for the future

Digital transformation continues to deliver measurable efficiency improvements. During the year we optimised cloud usage, consolidated legacy applications and automated routine processes, reducing operating costs and improving productivity.

These actions enabled the Digital programme to deliver planned improvements £2.6 million below budget, supporting efficiency targets and enabling reinvestment in service improvements. New mobile tools and automated workflows have also reduced manual activity, freeing staff time to focus on operational delivery and customer service.

These developments are strengthening operational resilience and improving service performance. By modernising systems, expanding real-time monitoring and using data to inform decisions, we are moving towards more predictive, data-led management of our infrastructure.

These capabilities will play a critical role in ensuring we deliver the best services possible - enabling faster responses, more efficient delivery and more reliable services for customers across Scotland.

Managing emerging demand: data centres and water use

As the use of AI grows, we need to understand and plan for its wider impacts. With more frequent dry periods and increasing focus on water resources, new sources of demand are receiving greater attention.

There are currently 13 data centres operating in Scotland, using around 97,000 litres of water per day. By comparison, Scottish Water supplies between 1,600 and 1,800 million litres of water every day, so data centres account for only about 0.006% of total demand.

However, it is important to take every opportunity to ensure data centres do not put undue pressure on water resources that are becoming more stressed because of changing weather conditions.

Data centres can be designed to use closed-loop cooling, and to reuse water including final effluent from wastewater treatment works, limiting the need for continuous supply from the drinking water network.

While global growth in digital services is increasing interest in new developments, no new AI data centres have yet been approved in Scotland. We are engaging early with developers and local authorities to assess proposals, consider location and technology choices, and identify the most sustainable options. This includes prioritising alternatives such as using treated final effluent where appropriate.

DIGITAL, DATA AND OPERATIONAL RESILIENCE

Harnessing Artificial Intelligence for good

During the year, we established a dedicated Artificial Intelligence resource within our Digital Directorate to support the responsible development and application across the organisation. This capability is intended to support the ethical and beneficial use of AI in Scotland, ensuring that innovation is guided by strong governance, transparency and a clear focus on delivering public value.

The team is developing and testing AI applications linked to operational and customer priorities, including reducing leakage, improving asset management, minimising environmental impact and enhancing customer service. This includes the development of AI tools to support wastewater network inspections, helping automate the review of CCTV footage and improve the speed and consistency of identifying any issues reducing impact on customers.

To support the responsible use of AI, all activity is being developed within a defined governance framework covering data use, security, transparency and ethical oversight. This is intended to help ensure AI is applied in a way that supports informed operational decision making and delivers clear benefits for customers and communities.

This has been brought together through the creation of an AI Laboratory - an in-house centre of excellence designed to develop practical, scalable solutions that support our strategic objectives and long-term SR27 outcomes. It provides a structured way to test, scale and embed AI solutions where they deliver clear operational, environmental or customer benefit. Its focus is on applying AI where it can make a meaningful difference, including reducing leakage, minimising environmental impact and improving customer experience, while also identifying new opportunities to enhance how services are planned, operated and maintained.

In its first year, the lab team developed a pipeline of 28 high-impact use cases, with early applications already delivering measurable benefits. One example is an AI-enabled vision solution that automatically analyses wastewater CCTV footage to detect pipe defects, replacing hours of manual video review with analysis completed in minutes. This improves efficiency, reduces overtime and creates safer, more consistent working conditions for operational teams.

Developed in-house, the solution can be adapted and scaled across other inspection and survey activities at minimal additional cost, significantly increasing its long-term value. Through initiatives like this we are beginning to unlock new insight and efficiency across the business, while ensuring the use of AI remains responsible, transparent and aligned to our strategic priorities.

FOCUS

AI is already being applied across our operations to improve performance, efficiency and decision making.

FOCUS

Artificial intelligence

DIGITAL, DATA AND OPERATIONAL RESILIENCE

Driving performance through global collaboration

During the year we have worked closely with the International Water Association, the wider UK water sector and partners across Scotland to help prepare for the International Water Association World Water Congress and Exhibition 2026 in Glasgow. It will be the largest event of its kind to be held in the UK for more than 50 years. It will bring around 10,000 water professionals, researchers, policymakers and industry leaders from across the world to Scotland.

The Congress comes at a pivotal time for us, and the wider water sector, as we prepare to deliver our largest ever programme of investment through the next regulatory period. Discussions throughout the week will focus on many of the same challenges shaping our own long-term strategy, including climate adaptation, flood resilience, environmental protection, ageing infrastructure, digital innovation and the growing role of nature-based solutions in improving resilience and sustainability.

Scottish Water will play a leading role throughout the event, with Chief Executive Alex Plant serving as Co-President of the International Water Association Congress. Alongside the main Congress programme, the Glasgow Summit will bring together senior leaders from government, regulation, utilities, finance and industry to discuss how countries and organisations can accelerate progress towards more resilient and sustainable water systems, and how investment, innovation and collaboration can support long-term delivery.

It will also showcase Scottish expertise and innovation through the UK Pavilion and technical visits across Scotland. This includes Glasgow's Smart Canal, a pioneering blue-green infrastructure system which uses weather forecasting and real-time operational management to proactively reduce flood risk and support sustainable urban development.

Scottish Water works closely with partners to integrate the system with the wider drainage and wastewater network, demonstrating how collaboration, digital technology and system thinking can deliver better outcomes for customers and communities.

Participating in the Congress will help us share learning, explore new ideas and build relationships with leading organisations from across the world. Insights from the event will help inform future investment, innovation and service improvement as we continue to respond to climate, environmental and operational challenges.

IWA the international water association

CREATING VALUE FOR SCOTLAND'S COMMUNITIES

Digital technology and data are playing an increasingly important role in strengthening operational performance, improving customer experience and supporting our largest-ever investment programme. During the year, we modernised core systems, expanded real-time operational insight and introduced new tools that help teams respond more quickly and make better decisions. Together, these developments are enabling a shift from reactive to more proactive, data-led operations, improving resilience, reducing risk and delivering better outcomes for customers and the environment.

A major focus has been updating core operational and asset management systems. We have replaced legacy platforms, some of which were more than 20 years old, with a modern enterprise asset management system, improving visibility of assets, enabling more proactive, risk-based maintenance and helping prevent equipment failures and unplanned outages. In wastewater operations, a new digital waste management system is improving the planning of around 3.3 million miles of tanker movements each year, optimising routes, reducing fuel use and lowering emissions.

Measuring and reporting social value

Every pound we invest delivers value beyond water and wastewater services and supports jobs, skills and stronger communities across Scotland. We measure and report this wider contribution through independent economic analysis and our own workforce and supply chain data.

We commissioned an independent **Economic Impact Report** to assess the wider social value created through our investment and operations. It brings together evidence on jobs supported, economic activity generated and community benefits, improving transparency and strengthening how we demonstrate value for Scotland.

FOCUS

Community Empowerment (Scotland) Act 2015

CREATING VALUE FOR SCOTLAND'S COMMUNITIES

FROM APPLYING THE PROCUREMENT AND FINANCIAL DATA TO THE SCOTTISH GOVERNMENT'S MACROECONOMIC IMPACT MODEL, SCOTTISH WATER NOW UNDERSTANDS THAT:

21,000

Scottish Water supports the employment of around 21,000 people directly and indirectly

Scottish Water generates £4.5bn annually for Scotland's economy

£4.5BN

Scottish Water supports high-value jobs in engineering, data and technology

4x JOBS

Each direct job Scottish Water creates **supports 4,** more than the Scottish oil, gas and power sectors

(per Scottish Government multipliers)

Water industry jobs are concentrated in two of Scotland's most deprived areas:

Glasgow

(55% in most deprived simd 1–2 communities)

Highlands

(62% in most deprived simd 1–2 communities)

NEARLY 90%

Of Scottish Water's direct supply chain spending is with companies operating in Scotland*

£3 VALUE

For every £1 Scottish Water invests £3 of value is created

INCREASED BY 23%

The multiplier effects of Scotland's water industry have increased by 23% over the last 10 years compared to: +3% gas; -6% electricity; -17% construction; -19% oil & gas (extraction)

CREATING VALUE FOR SCOTLAND'S COMMUNITIES

Social value generated through investment and operations

The report found we generate £4.5 billion annually for Scotland's economy and support more than 21,000 jobs directly and indirectly. The analysis also found that for every £1 invested, £3 of value is created across the wider economy.

Our impact is felt across businesses and communities throughout Scotland - 90% of our direct supply chain spending is with companies operating in Scotland, supporting local businesses and regional growth. Procurement activity supports around 14,000 jobs, with further employment created through workforce spending in local economies. Each direct job supported by Scottish Water sustains around four additional jobs across Scotland's economy.

This investment supports skilled, high-value employment across construction, engineering, digital and environmental sectors. Over the past decade, the multiplier effects of Scotland's water industry have increased by 23%, outperforming many other major industries and demonstrating the growing impact of domestic supply chains.

Our contribution is particularly important in areas facing economic and geographic challenges. Employment in the water sector is concentrated in some of Scotland's most deprived communities, with 55% of roles in Glasgow and 62% in the Highlands located in areas identified within the Scottish Index of Multiple Deprivation **Scottish Index of Multiple Deprivation: data and resources** helping provide stable, skilled employment and supporting inclusive growth. In these communities, our investment is not just about infrastructure, it is about opportunity, stability and long-term resilience.

We also create opportunities for future skills and careers. As of 31 March 2026 we employed 4,709 people, with more than 240 apprentices and graduates on structured development programmes. Our Early Careers education and engagement activity has reached more than 58,000 young people, helping build awareness of careers and support for the future workforce. The scale of this contribution is significant. Independent analysis found the economic impact of Scottish Water is equivalent to hosting two Commonwealth Games every year, reflecting the breadth of jobs, investment and wider benefits created through our work.

In addition to supporting employment, the innovation also reduces embodied carbon by almost 75% compared with traditional materials, showing how social value, economic benefit and environmental improvement can be delivered together.

CASE STUDY
Supporting jobs and social value through local innovation

MORE THAN
58,000
YOUNG PEOPLE REACHED THROUGH OUR EARLY CAREERS EDUCATION AND ENGAGEMENT ACTIVITY

£4.5bn
GENERATED TO THE SCOTTISH ECONOMY THIS YEAR

EVERY
£1
INVESTED CREATES £3 OF VALUE

CREATING VALUE FOR SCOTLAND'S COMMUNITIES

Community partnerships and education

Supporting communities and helping people understand and value water is an important part of our public service role. These partnerships bring our purpose to life, connecting what we do every day with the people and communities we serve. Through long-term partnerships and education programmes, we help improve wellbeing, build essential life skills and inspire the next generation to care for Scotland's water environment.

We are proud to continue to support the Learn to Swim National Framework, a unique partnership between Scottish Water and Scottish Swimming. The focus of this partnership is on water safety & drowning prevention – and this also continues to deliver social value.

Our vision is to create a generation of confident, safer, competent swimmers in a country with extensive inland and coastal waters - who are equipped with vital water safety knowledge and skills and also get to experience the wider health and social benefits that swimming can offer.

As at 31 March 2026, there were more than 88,600 children and adults taking part in weekly Learn to Swim lessons, delivered by a network of 38 Leisure Trusts and aquatic providers the length and breadth of the country.

In schools across Scotland, our Generation H_2O programme is inspiring the next generation to understand, value and protect Scotland's water. Working with schools and communities across the country, the programme provides interactive learning focused on water, the environment and sustainability.

It helps young people understand the role water plays in everyday life while encouraging responsible behaviours such as water efficiency and protecting the sewer network.

Since launching Generation H_2O in September 2023, we have reached 95,231 young people through downloaded content, with 1,248 teachers registered across 937 schools in Scotland, 14% of schools in SIMD decile 1 and 2.

This year we worked with Scottish Swimming on a Water Saving Challenge to provide a memorable water safety lesson, won by Wallacestone Primary, P6.

88,676

CHILDREN & ADULTS TAKE PART IN LEARN TO SWIM LESSONS EVERY WEEK

95,231

CHILDREN REACHED THROUGH OUR GENERATION H_2O PROGRAMME

CREATING VALUE FOR SCOTLAND'S COMMUNITIES

We have also expanded our STEM education activity, working with partners including Science Centres in Aberdeen, Dundee and Glasgow, Edinburgh's Dynamic Earth and the Science Skills Academy covering the Highlands and Islands. By 31 March 2026 our Water Cycle Workshop had reached more than 1,600 young people, with an additional 700 planned to attend by June 2026. We have enhanced our Generation H_2O engagement through employee volunteering,with 31 school visits delivered by colleagues sharing first-hand insight into the vital work they do. This direct engagement helps build awareness, aspiration and understanding of careers in the water sector.

We also continue to engage directly with the public through events such as the Glasgow Science Festival and Dundee Science Festival. Interactive exhibits, including the "From Source to Sea" experience, help people explore how water is treated, used and returned to the environment.

This strengthens understanding of the essential services that support everyday life, combining national coordination with local delivery to improve access, increase inclusion and create lasting benefits for communities across Scotland.

Supporting global water access (WaterAid)

We continue to support global access to safe water, sanitation and hygiene through our long-standing partnership with WaterAid. Through fundraising, awareness campaigns and colleague engagement, we contribute to projects that help communities around the world gain reliable access to clean water and sanitation services.

This work reflects our broader commitment to public value and recognises that while water services in Scotland are among the best in the world, millions of people globally still lack access to these essentials.

Fundraising efforts by Scottish Water for 2025/26 totalled £480,000.

FINANCIAL SUSTAINABILITY

An overview of year-on-year Group performance, on a statutory accounting basis, is provided in the section below.

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 pages 84 to 87. More detailed information on the performance of regulated services, on a regulatory accounting basis, and future prospects for the business are provided on pages 88 to 91.

All Scottish Water surplus is spent on maintaining and upgrading our assets.

The group surplus before tax for the year to 31 March 2026 increased by £117 million to £199 million (2025 restated: £82 million). This was due to a £113 million increase in Scottish Water regulated surplus driven by charge increases of 9.9% in the year. This increase was supported by a £6 million increase in Business Stream and a £4 million increase in Horizons, partially offset by a £6 million reduction in inter-company eliminations.

In the year to 31 March 2026, Group cash balances decreased by £46 million to £224 million. With net new borrowing in the year of £170 million increasing debt to £5,044 million, consolidated net debt increased by £216 million to £4,820 million. The movements are summarised in the table here by trading segment.

Consolidated capital investment increased £36 million to £818 million (2025: £782 million) mainly reflecting increased investment in Scottish Water's regulated activities.

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	
	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25
Revenue	1,738	1,579	839	708	15	19	(232)	(219)	**2,360**	**2,087**
Operating Costs	(1,394)	(1,365)[14]	(821)	(693)	(14)	(22)	232	225	**(1,997)**	**(1,855)[14]**
Operating Surplus	344	214[14]	18	15	1	(3)	-	6	**363**	**232[14]**
Finance Costs	(172)	(155)[14]	6	3	2	2	-	-	**(164)**	**(150)[14]**
Surplus/deficit before Tax	172	59[14]	24	18	3	(1)	-	6	**199**	**82[14]**

[14] Restated – see "Change in pensionable pay definition and restatement"

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Consolidated Total £m	
	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25
Cash	65	136	98	78	61	56	**224**	**270**
Debt	(5,044)	(4,874)	-	-	-	-	**(5,044)**	**(4,874)**
Net Debt	(4,979)	(4,738)	98	78	61	56	**(4,820)**	**(4,604)**

FINANCIAL SUSTAINABILITY

Group taxation

Scottish Water was awarded the Fair Tax Mark for the sixth time in December 2025, demonstrating the continued commitment from Scottish Water to play fair by tax.

The consolidated tax charge on the income statement in the year was £67 million (2025 restated: £33 million). The effective tax rate for the year was 34% (2025 restated: 40%). The reduction is mainly due to a prior year adjustment in respect of the differences in tax versus accounting values of assets, and movements in general provisions (see note 8 on page 163).

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	
	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26	FY25
Current year tax charge	(8)	(12)	7	6	1	-	-	-	**-**	**(6)**
Deferred tax charge	67	37[15]	1	-	(1)	-	-	2	**67**	**39**[15]
Total	**59**	**25**[15]	**8**	**6**	**1**	**-**	**-**	**2**	**67**	**33**[15]

15 Restated – see "Change in pensionable pay definition and restatement"

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 6% in the year to 31 March 2026, the overall impact was an actuarial gain of £162 million.

The change in pensionable pay definition (see below) led to the recognition of an increase in defined benefit obligation for the Group of £122 million, split £111 million and £11 million across the funded liability and unfunded liabilities respectively.

These two factors resulted in a pension net asset of £1,106 million as at 31 March 2026. 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 (nil and nil respectively at 31 March 2025). As such, none of this pension asset is recognised.

In addition, Scottish Water has an unfunded liability of £77 million as at 31 March 2026 (£79 million restated at 31 March 2025). 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 181 to 186).

FINANCIAL SUSTAINABILITY

Change in pensionable pay definition and restatement

Following enquiries, Scottish Water has updated how pensionable pay is defined to align with regulations set out by the Scottish Local Government Pension Scheme. This means AOIP payments, both past and future, will now be categorised as pensionable pay.

Scottish Water is working closely with advisors and the three local government pension schemes to undertake the detailed calculations in respect of individual members and conclude on the treatment of past unpaid contributions. All three funds are in a significant surplus position, after taking account of the increased defined benefit obligations.

As this change applies to payments in prior periods and represents a material increase in the defined benefit obligation, the prior year results have been restated to show the corrected treatment.

More information on the key estimates used in determining the changes can be found in note 22 of the financial statements and a summary of the restatements for the year ended 31 March 2025 are disclosed in note 30.

Financial summary of year-on-year performance

Scottish Water regulated business revenue

Revenue for the year to 31 March 2026 increased by £159 million or 10% to £1,738 million[16] (2025: £1,579 million). This is analysed by category in the table below. The increase reflects an average charge increase of 9.9% for household and wholesale customers applied on 1 April 2025 and new connections to services. Cumulatively, for the first five years (2022 to 2026) of this six-year regulatory period, charges were 7.2% above CPI inflation but 3.2% behind the charge path set in the Final Determination.

	FY26 £m	FY25 £m	(Inc)/dec £m
Household	1,277	1,154	123
Wholesale	444	410	34
Other	17	15	2
Total revenue	**1,738**	**1,579**	**159**

[16] This excludes Infrastructure charge income of £14m (2025: £13m) and disposal proceeds from sale of assets of £2m (2025: £2m) which is included in the regulatory accounting basis set out on page 88 below.
[17] The £13m 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 2025 5.80% (March 2024: 4.80%).

Operating costs, PFI and depreciation

Total operating costs in the year increased £29 million or 2% to £1,394 million (2025 restated: £1,365 million). The table below reconciles regulatory operating and PFI costs, shown in the regulatory section on page 88 with total operating cost per the statutory accounts.

	FY26 £m	FY25 £m	(Inc)/dec £m
Regulatory operating costs	(547)	(511)	(36)
PFI costs	(168)	(169)	1
Repair costs	(327)	(343)	16
Depreciation and amortisation	(384)	(366)	(18)
Gain on sale of assets	2	2	-
IAS 19 pension and employee cost adjustment[17]	13	2	11
PFI cost adjustment - finance costs to lease liability[18]	18	21	(3)
Effect of change in pensionable pay[19]	(1)	(1)	-

[18] PFI costs, for statutory reporting purposes, are treated as finance leases under IAS17. 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.
[19] Restated - see "Change in pensionable pay definition and restatement" section above.

FINANCIAL SUSTAINABILITY

	FY26 £m	FY25 £m	(Inc)/dec £m
Total company operating cost per statutory accounts	**(1,394)**	**(1,365)[19]**	**(29)**
Cost of sales	(1,273)	(1,250)	(23)
Administrative expenses	(121)	(115)[19]	(6)
Total	**(1,394)**	**(1,365)[19]**	**(29)**

[19] Restated - see "Change in pensionable pay definition and restatement" section above.

Regulated operating costs increased £36 million or 7% to £547 million (2025: £511 million) mainly reflecting an increase in employment costs (through a combination of our new pay and grading structure, employer NI increases effective from 6 April 2025 and additional headcount compared to the prior year), increased electricity costs, and additional costs associated with the change in pensionable pay definition.

PFI costs decreased in the year by £1 million or 1% to £168 million (2025: £169 million) mainly reflecting inflationary impacts on PFI contracts (which broadly increase by RPI inflation annually), offset by fluctuations in underlying contract volume drivers, and one-off impacts.

Repair costs in the year decreased by £16 million or 5% to £327 million (2025: £343 million) driven by careful management of project promotion and increased governance around out of hours working, tankering and traffic management costs.

Depreciation and amortisation charges increased in the year by £18 million or 5% to £384 million (2025: £366 million), due to the profile of capital investment and completed projects coming into beneficial use.

Finance costs

Net finance costs in the year increased £17 million to £172 million (2025: £155 million). The increase was mainly driven by higher interest charges reflecting higher levels of debt and reduced interest receipts reflecting lower levels of cash on deposit.

The table below details the elements of net finance costs:

	FY26 £m	FY25 £m	(Inc)/Dec £m
Interest charges	(161)	(153)	(8)
Interest receipts	4	11	(7)
PFI finance lease costs (IFRIC 12)	(8)	(9)	1
Finance lease liabilities (IFRS 16)	(1)	(1)	-
Pension scheme finance costs (IAS 19)[20]	(6)	(3)[21]	(3)
Net finance costs	**(172)**	**(155)[21]**	**(17)**

[20] The adjustment to finance costs relates to the finance charge calculated on the pension scheme net liabilities using the opening discount rate of 5.80%.
[21] Restated - see "Change in pensionable pay definition and restatement" section above.

As at 31 March 2026, the weighted average interest cost of the outstanding long-term debt within Scottish Water's regulated business remained at 3.2% (March 2025: 3.2%). In the year, Scottish Water repaid £127 million of loans that had a weighted average interest rate of 4.9% with new loans drawn down from the Scottish Government of £297 million with a weighted average interest rate of 4.2%.

FINANCIAL SUSTAINABILITY

Surplus before tax

The surplus before tax increased £113 million or 192% to £172 million (2025 restated: £59 million) for the year to 31 March 2026.

Capital investment

On a statutory accounting basis, Capital investment for the year was £812 million, £34 million higher than in 2024/25 reflecting the planned increase to the investment programme.

The table here reconciles planned investment on a regulatory accounting basis (as highlighted on page 90) with Capital investment as stated in the statutory accounts (see note 9 on page 165).

	FY25 £m	FY25 £m	Change £m
Planned investment on a regulatory accounting basis	**868**	**815**	**53**
Less planned repairs charged to the Income Statement	(99)	(107)	8
Add refurbishment costs included in responsive refurbishment costs	29	42	(13)
Add developer contributions	40	47	(7)
Less investment funded mainly from infrastructure charges and the settlement of contractual claims etc	(32)	(22)	(10)
Lease additions (IFRS 16)	6	3	3
Company capital additions as at 31 March 2026 per note 9	**812**	**778**	**34**

Cash

The cash balance in the year within Scottish Water decreased as planned, by £71 million to £65 million (2025: £136 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.

Our risk appetite is set by the Board and determines that the regulated business should seek to have access to approximately four weeks expenditure. Cash balances are actively managed by the Treasury team against this risk appetite. Future funding already committed for future investment delivery is set out in note 23 on page 186.

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

FINANCIAL SUSTAINABILITY

opportunities that will provide scale and add value.

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 has access to borrowing from Scottish Water Business Stream Holdings Ltd, subject to the appropriate board approvals.

Performance review

Business Stream has retained its UK market share at around 20%, maintaining its position as one of the largest retailers in the UK despite continued challenges in the economy, geopolitical instability and the increasingly competitive market. Their model is predicated on providing high quality services to business customers across the UK, ensuring effective customer service and water efficiency support.

During the year, Business Stream focused on improving customer and colleague experience through digital transformation, starting a new Customer Relationship Management programme, launching a Customer Care Charter, and preparing for Smart meter deployment across the UK water sector. KPI performance improved, including improved cash collection and reduced customer debt despite significant wholesale price increases.

Financial performance

Revenue from this business segment for the year totalled £839 million (2025: £708 million) (per note 3 to the financial statements), representing 32% (2025: 31%) of group revenue, before intercompany eliminations. The surplus before tax within this segment was £24 million (2025: £18 million) reflecting revenue growth as a result of price increases and increased finance income from higher cash balances.

Despite the continuing challenges within the economy, Business Stream's balance sheet remains strong, with net assets of £149 million as at 31 March 2026 (2025: £135 million).

The balance of debt reduced to £10 million in year, following the repayment of £10 million (31 March 2025: £20 million).

Cash balances as at 31 March 2026 for the Business Stream 'Group' were £98 million (31 March 2025: £78 million) due to improved cash collection from customers throughout the year as well as an increased number of customers paying annual 2026/27 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 focus on renewable energy projects.

Revenue from this business segment to March 2026 totalled £15 million (2025: £19 million) (per note 3 to the financial statements) representing 1% (2025: 1%) of group revenue before intercompany eliminations.

The decrease in revenue reflects the timing and mix of project delivery, together with the impact of disposals and lower activity in certain operational areas.

The surplus before tax within this segment was £3 million (2025: £1 million deficit). The £4 million improvement in surplus results from the non recurrence of significant one-off losses recognised in the prior year, including those associated with the disposal of the Deerdykes AD plant and Heat from Waste assets. Reduced demand for Export Water and contractor and staff cost increases partially offset this improvement.

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 £61 million (2025: £56 million) reflecting the proceeds from disposal of Deerdykes anaerobic digestion plant. Horizons continue to evaluate new commercial opportunities that will generate additional cash and strengthen financial stability.

FINANCIAL SUSTAINABILITY

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)[22]. The following tables and commentary have therefore been presented on that basis and compared to the Final Determination (FD) prepared by the WICS.

The Regulated Income & Expenditure Statement and Capital Investment for the year to 31 March 2026 compared to the Final Determination[23] is presented here.

Scottish Water's Regulated Income & Expenditure Statement	Actual 2025/26 £m	WICS financial model underpinning FD 2025/26 £m	Variance 2025/26 £m	Cumulative variance 2021-26 £m
Total revenue	**1,754**	**1,820**	**(66)**	**(386)**
Regulatory operating costs	(547)	(691)	(24)	5
PFI costs	(168)			
Interest charges	(157)	(194)	37	190
Costs before items subject to LTNC[24]	**(872)**	**(885)**	**13**	**195**
Total available to support investment before LTNC items	**882**	**935**	**(53)**	**(191)**
Responsive repair & refurbishment costs	(230)[25]	(286)	56	196
Developer contributions	(36)[25]	(36)	-	(10)
Tax paid	- [25]	(6)	6	28
Total LTNC Items	**(266)**	**(328)**	**62**	**214**
Surplus after charging LTNC items	**616**	**607**	**9**	**23**

22 LTNC Items - Responsive repair and refurbishment costs, developer contributions and tax.
23 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.
24 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 £27m and £3m respectively. These items are also included within the actual column to ensure like for like comparison.
25 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 £3 million in developer contributions with responsive repair and refurbishment costs and tax paid unchanged over the period from 2021-27. 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 £3 million in developer contributions with responsive repair and refurbishment costs and tax paid unchanged over the period from 2021-27.

FINANCIAL SUSTAINABILITY

Revenue

Revenue for the year at £1,754 million was £66 million lower than anticipated in the FD. Cumulatively, for the first five years of the regulatory period, charges are 7.2% above CPI inflation and 3.2% below the charge path anticipated in the FD. Consequently, revenue, on a cumulative basis since the start of the regulatory period, was £386 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 2025/26 were higher at 9.9%, 7.6% higher than the October 2024 CPI inflation of 2.3% to continue realigning charges with the cumulative CPI + 12.6% increase published in the FD for the 6 year period.

Operating costs, PFI and interest

Costs before items subject to LTNC for the year at £872 million, were £13 million lower than anticipated in the FD, driven by lower interest charges variance of £37 million partially offset by higher operating and PFI costs variance of £24 million.

As set out in the 2025/26 Interim Performance and Prospects, planned costs before items subject to LTNC were expected to be £868 million. Actual performance in the year was £4 million higher at £872 million. The main contributors to the difference compared to plan, were the higher electricity costs due price and consumption increases, increased cloud computing costs, and additional costs associated with the change in pensionable pay definition. These were partially offset by reduced weather impacts over the winter period, the small decrease in PFI costs, and lower interest charges driven by improved rates on borrowings.

Costs before items subject to LTNC, on a cumulative basis since the start of the regulatory period, were £195 million lower than that anticipated in the FD.

The table below reconciles the total available to support investment of £882 million, shown in the table below, to the Scottish Water surplus before tax in the financial statements of £172 million, referenced in the financial summary of year-on-year performance above and on the financial statements on page 147.

	FY26 £m
Regulated funding for planned investment before LTNC adjustments (per table above)	**882**
Deduct actual expenditure on LTNC items (excluding tax paid)	(297)
Less depreciation & amortisation charges	(384)
Add back developer contributions less infrastructure charge income awaiting investment	26
Disposal proceeds less gain or loss on disposal of assets	-
Planned maintenance costs less refurbishment costs capitalised	(70)
Retirement benefit obligation:	
Operating costs	11
Finance costs	(6)
Finance lease costs (IFRS 16) adjustment	-
PFI finance lease costs (IFRIC 12) adjustment	10
Scottish Water Surplus Before Tax per statutory accounts	**172**

FINANCIAL SUSTAINABILITY

Long-Term Normative Charge Items (LTNC)

Responsive repair and refurbishment expenditure is difficult to predict over a short-term time horizon with volatility driven by the incidence of significant water main bursts or collapsed sewers. An 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 £257 million compared to the LTNC charge for the year of £230 million, which itself was £56 million lower than the FD assumption of £286 million. Cumulatively, the LTNC for responsive repairs and refurbishment was £196 million lower than the level assumed in the FD. In the year our LTNC has remained at £230 million to align with our forecast for the 2021-27 period.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach for these with normative charges of £36 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 remained at the 2024/25 level.

In the year actual expenditure for developer contributions was £40 million with tax expenditure reflecting a refund of £5 million due to a group tax relief claim. Consequently, total actual expenditure on LTNC items in the year was £292 million, £26 million higher than the LTNC.

Over the 2026/27 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 investment

The total surplus for the year available to support planned investment, after charging for LTNC items was £616 million. The figure anticipated in the FD was £607 million, meaning £9 million of additional surplus was generated to be reinvested in additional capital spending. Cumulatively since the start of the regulatory period, £23 million of additional surplus has been generated for reinvestment in the investment programme

Capital investment

Gross planned investment on a regulatory accounting basis in the year was £868 million, which was £59 million or 7% higher than the FD. When combined with responsive repair and refurbishment costs, total regulated investment was £1,125 million in the year.

The table below compares performance to the investment expectations in the FD.

Investment on a regulatory accounting basis	Actual 2025/26 £m	Final Determination 2025/26 £m	Inc/(Dec) 2025/26 £m	Cumulative Inc/(Dec) 2021-26 £m
Planned investment	868	809	59	213
Responsive repair and refurbishment costs	257	286	(29)	(232)
Total	**1,125**	**1,095**	**30**	**(19)**

FINANCIAL SUSTAINABILITY

Prospects for the regulated business 2026/27

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. As part of this approach, we remain focused on the pressure on delivery that growing investment can lead to, as well as cost pressures in the supply chain.

Scottish Water Regulated Income & Expenditure Statement	Plan 2026/27 £m	Final Determination 2026/27[26] £m	Variance 2026/27 £m	Cumulative Variance £m
Total revenue	**1,911**	**1,937**	**(26)**	**(412)**
Regulatory operating costs	(588)	(701)	(15)	(9)
PFI operating costs	(128)			
Interest charges	(169)	(200)	31	220
Costs before items subject to LTNC	**(885)**	**(900)**	**15**	**211**
Total available to support investment before LTNC items	**1,026**	**1,037**	**(11)**	**(201)**
Responsive repair & refurbishment costs	(230)	(289)	59	259
Developer contributions	(36)	(36)	-	(8)
Tax paid	-	(6)	6	33
Total LTNC Items	**(266)**	**(331)**	**65**	**284**
Surplus after charging LTNC items	**760**	**706**	**54**	**83**

[26] Updated to reflect forecast CPI inflation of 3.4% in 2026/27 per the April MPC Report published by the Bank of England

The planned regulated income & expenditure for the year to March 2027 compared to the Final Determination is presented below.

Customer charges for 2026/27 have increased by 8.7% reflecting our current and future investment needs to protect services, increasing costs such as National Insurance and Electricity and to recover revenue lost over the earlier part of the regulatory period when charges were set at lower levels in recognition of the Covid-19 pandemic and the cost-of-living crisis. This increase will realign charges with the end point of the path outlined in the FD of CPI + 12.6% over the 2021-2027 regulatory period.

Costs for 2026/27, before items subject to LTNC, are anticipated to outperform by £15 million.

Over the 2021-27 regulatory period, our expectation is that our costs before LTNC items, will be c. £211 million lower than the FD.

Net new borrowing from the Scottish Government in 2026/27 is planned to be £170 million. Planned investment, combined with responsive repair and refurbishment costs are forecast at c. £1,150 million. The expected cash balance at the end of 2026/27 is within a range of £50 million to £100 million.

OUR APPROACH TO RISK MANAGEMENT

At Scottish Water, we operate in a complex and ever-changing environment. We manage extensive infrastructure, deliver essential services to millions of customers and operate within a highly regulated industry. Understanding and managing risk is therefore central to how we run the organisation. Effective risk management helps us stay aware of the factors, both within and outside our control, that could affect our ability to deliver safe, reliable and sustainable services. It ensures we can respond to issues as they arise, while also preparing for future challenges.

We take a responsible and forward-looking approach to risk management. Our well-established, integrated risk management framework helps us maintain a clear and consistent view of risks across the organisation[27], even as the external environment continues to evolve. Our approach is built around three key pillars: **Awareness, Competence**, and **Management**.

Together, these pillars support better decision making by helping us assess and prioritise our activities with confidence. By reducing potential threats and making the most of opportunities, our approach empowers our people to support our strategic ambitions and protect long-term value for customers, communities and the environment. This ensures Scottish Water remains resilient, sustainable and well prepared for the challenges ahead.

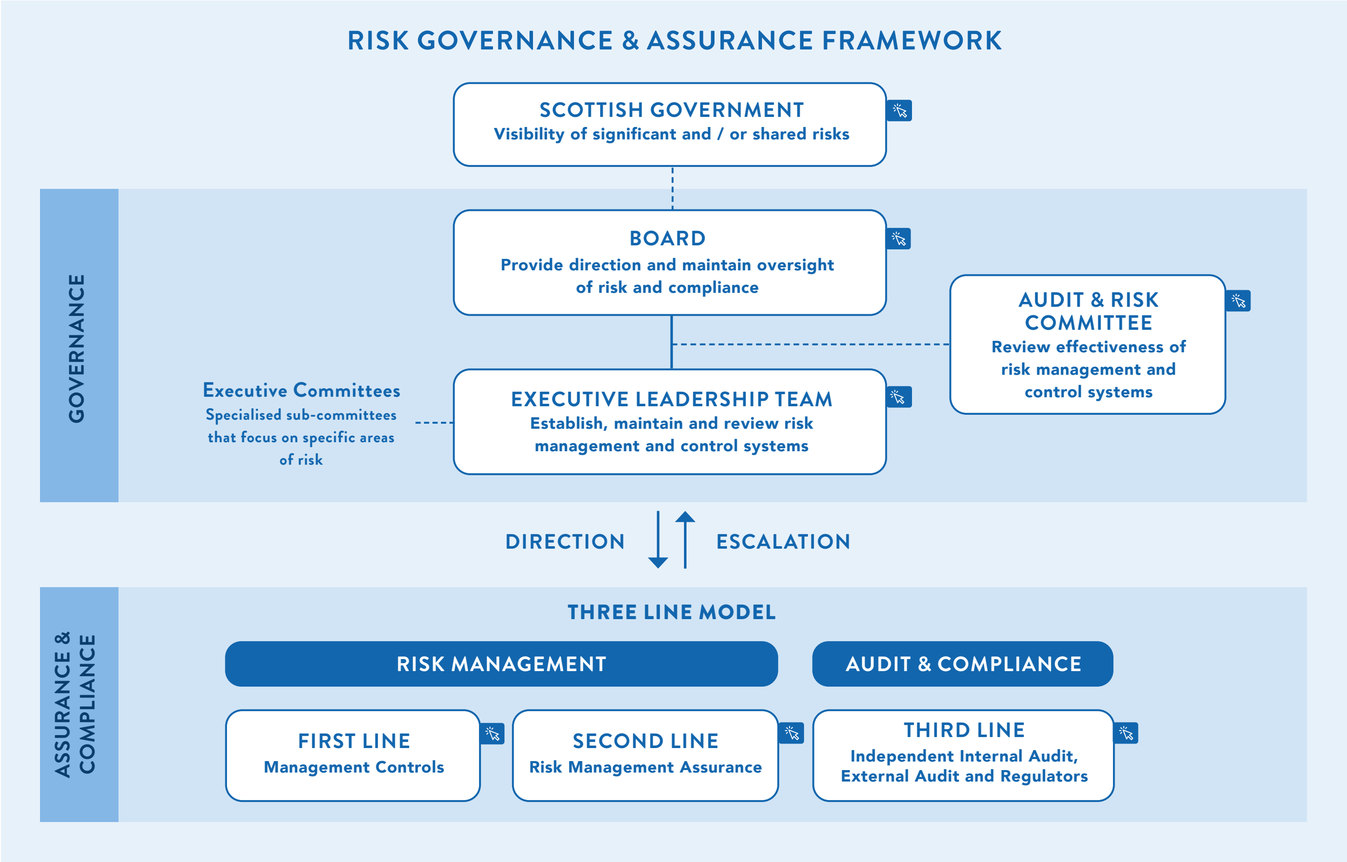
OUR APPROACH TO RISK MANAGEMENT

[27] The scope of Scottish Water's 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.

RISK GOVERNANCE AND ASSURANCE FRAMEWORK

We take a responsible approach to risk, assurance and compliance. To support this, we have established a robust and effective risk governance framework, underpinned by the three-line assurance model, which provides clear oversight and accountability for how risks are identified, managed and assured across the organisation.

Overall leadership and accountability for the framework rests with the Board, supported by the Audit & Risk Committee, the Executive Leadership Team, and its sub-groups. These governance groups play a key role in ensuring that risk management arrangements are appropriately designed, consistently applied and operating effectively.



RISK MANAGEMENT APPROACH

Our risk management approach is aligned to the key principles of the ISO31000:2018 Risk Management standard. These principles provide a recognised and structured foundation for identifying, assessing and managing risk across the organisation.

We have tailored this approach to reflect the nature of our activities and the dynamic environment in which we operate. To ensure it remains effective and aligned with best practice, we formally review our approach every three years. The most recent review was completed in 2024/25, with the next scheduled for 2027/28. In addition, an internal audit undertaken in 2025/26 provided assurance over the effectiveness of our processes and how they are applied in practice.

Risk process

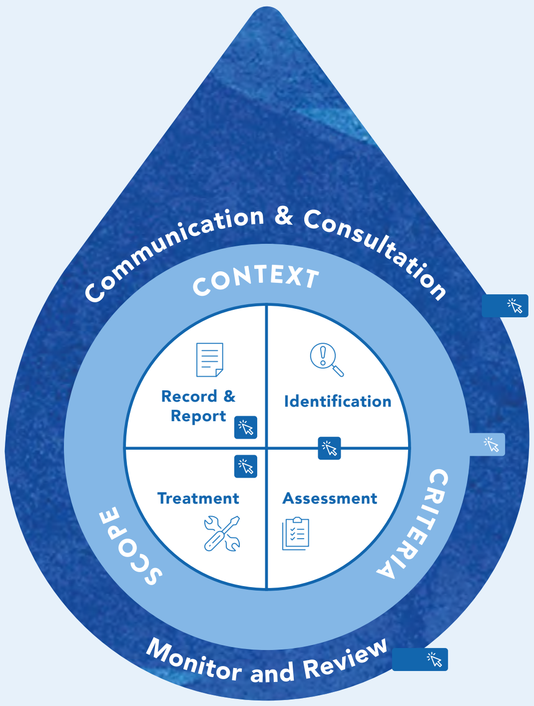
Effective risk management at Scottish Water is a shared responsibility. Everyone in our organisation has a role to play in identifying, assessing, escalating and managing risk.

To support a consistent and comparable assessment of risks, whether they represent threats or opportunities, we use a corporate risk scoring matrix. This enables us to evaluate the potential consequences and likelihood of each risk and to prioritise them appropriately.

Risk information is recorded and managed through a digital risk management system, which supports structured monitoring, review and analysis. This enables us to identify trends and understand our overall risk position, while ensuring that risks are managed at the most appropriate level. At the same time, it provides visibility of both the risks and the actions taken to manage them across the organisation.

Regular review and reporting are fundamental to our approach. Formal risk reviews are conducted at least three times a year across business areas and are reported to the Executive Leadership Team, Audit & Risk Committee, and the Board. To support wider public-sector oversight, the Board provides an annual report to the Scottish Government for collaboration and sharing on Scottish Water's key principal risks.

RISK MANAGEMENT APPROACH



RISK MANAGEMENT APPROACH

Risk culture

A strong risk culture is central to the effectiveness of our risk management approach. Our culture is built around shared responsibility, openness and informed decision making.

By embedding clear expectation, supported by appropriate tools, processes and behaviours, we encourage early identification and proactive management of risks. This culture helps ensure that we are well-prepared to respond to achieve our strategic ambitions.

Risk appetite

A clear understanding of 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'*. It helps guide decisions across the organisation and provides clarity on where we are prepared to take risk, and where we are not.

Our risk appetite is reviewed and approved by the Board ahead of each regulatory period and whenever there is a significant change in our operating environment. This ensures it remains relevant, proportionate and aligned to our strategic priorities.

We structure our risk appetite around five Risk Appetite Perspectives: Managing our Assets, Working with People, Managing External Influences, Developing the Business, and Scottish Water Subsidiaries. For each perspective, we have established Risk Appetite Statements that set out our overall approach to managing risks in key areas of the business. These are supported by Risk Appetite Definitions, which include measurable indicators that help us assess whether we are operating within our risk appetite, or whether further management action is required.

Performance against risk appetite is monitored throughout the year. Biannual updates are provided to the Executive Leadership Team, Audit & Risk Committee, and the Board providing assurance that our risk exposure remains appropriate and well controlled. This structured approach supports consistent and transparent decision-making and helps ensure alignment with our wider strategic objectives.

As part of our routine risk management processes, a refresh of our risk appetite is currently underway, to support and inform future regulatory periods.

RISK CULTURE

RISK ENVIRONMENT 2025/26

Scottish Water operates within a dynamic and challenging risk environment. We routinely encounter a wide range of internal and external threats and opportunities, which we seek to proactively identify and manage to ensure the continuity, resilience and long-term sustainability of our services to our customers. Our risk environment is described using three key themes.

RISK ENVIRONMENT

MANAGING ESSENTIAL SERVICES IN A CHANGING ENVIRONMENT

PREPARING FOR THE FUTURE

UNDERSTANDING & RESPONDING TO EXTERNAL INFLUENCE

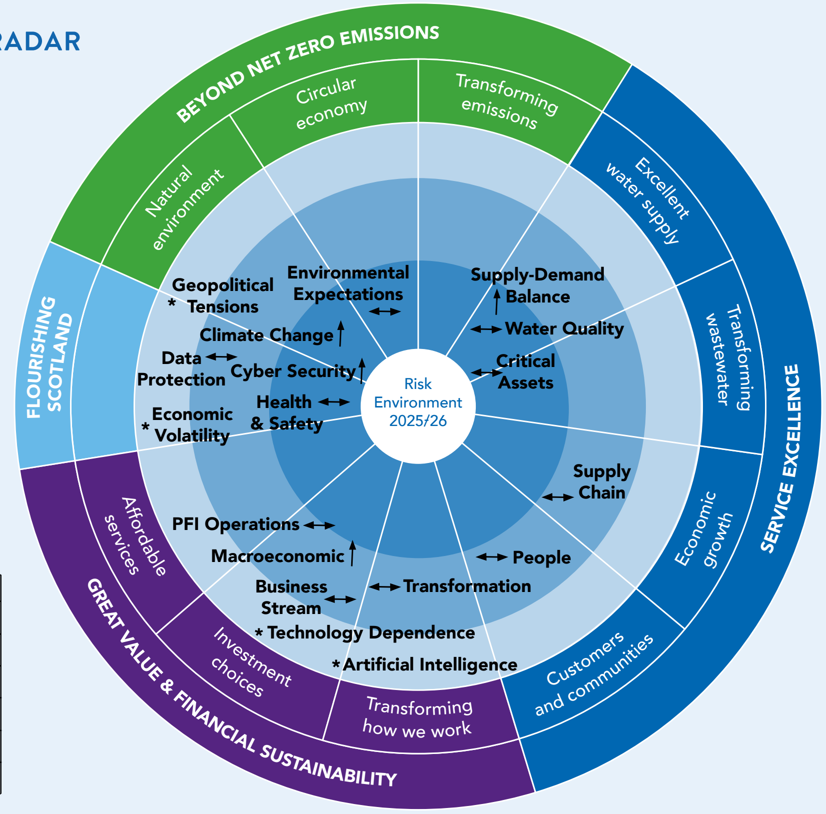
PRINCIPAL RISKS & UNCERTAINTIES

In preparing this Annual Report & Accounts, the Board has undertaken a comprehensive assessment of the principal risks and uncertainties facing Scottish Water and its subsidiaries. The risks identified represent those deemed most significant to the delivery of our objectives and overall performance.

These principal risks are those that could potentially threaten our business model, affect our ability to operate effectively within our regulatory framework, and influence both the short and long-term financial sustainability of Scottish Water.

A visual representation of the principal and emerging risks, mapped against our strategic ambitions and objectives, is provided in the Principal and Emerging Risk Radar. Risks positioned closer to the centre of the diagram indicate a higher likelihood of occurrence and a greater potential impact. The arrows show the recent risk trend from regular re-evaluation. Emerging risks, shown on the outer ring and marked with an asterisk (*), are less certain in nature and are subject to ongoing monitoring and analysis as they continue to evolve.

PRINCIPAL AND EMERGING RISK RADAR



Key	Explanation
↔	Stable
↓	Decreasing
↑	Increasing
	Very Serious
	Serious
*	Emerging Risk

Other notable risks

In addition to the principal risks outlined, Scottish Water also manages a range of other significant risks that, while lower in likelihood, could have a high impact if they were to materialise. These include risks arising from interdependencies with third parties and wider critical national infrastructure, such as reliance on external power, communications and digital technology networks. Increasing dependence on third party digital platforms, data services and technology providers that underpin both operational delivery and customer services are focus areas. There is also potential for our operations to interact with, or impact, other infrastructure systems, including oil and gas transmission assets and rail networks.

In parallel, we manage risks associated with increasingly complex supply chains, influenced by a combination of economic pressures, geopolitical instability and the physical impacts of climate change. These factors have the potential to affect the availability, cost and reliability of critical materials with implications for operational resilience, financial performance and service delivery if not effectively managed.

We also manage risks associated with the bioresources lifecycle, including the availability and resilience of disposal routes, and the planning and delivery of major bioresources activities.

More broadly, we actively manage risks associated with the delivery of our business plan. This includes financial and revenue-related risks connected to the effective collection and recovery of charges; maintaining constructive regulatory relationships; and responding to an evolving regulatory environment and changing regulatory approaches. We also monitor risks relating to changes in legislation, contractor performance, capacity and operational resilience.

Together, these risks are monitored through our wider risk management framework to ensure emerging issues are identified early and managed in a timely and proportionate manner.

All our Principal Risks are detailed on the following pages.

PRINCIPAL RISK TABLE

STRATEGIC AMBITION: GREAT VALUE & FINANCIAL SUSTAINABILITY		
MACROECONOMIC	Risk of prolonged macroeconomic volatility and financial uncertainty resulting in an increased cost based *and/or* domestic and wholesale revenue impacts.	**TREND:** Increasing (↑)
PFI OPERATIONS	Risk of PFI plant or operations failing to deliver in accordance with the contract terms resulting in financial and operational impacts.	**TREND:** Stable (↔)
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:** Stable (↔)
TRANSFORMATION	Opportunities arising from the delivery of a portfolio of transformational activity, supporting the achievement of the ambitions set out within the Long Term Strategic Plan; A Sustainable Future Together.	**TREND:** Stable (↔)

Return to Risk Radar

PRINCIPAL RISK TABLE

STRATEGIC AMBITION: FLOURISHING SCOTLAND		
HEALTH & SAFETY	Risk of 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 (↔)
CYBER SECURITY	Risk of 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 (↑)
DATA PROTECTION	Risk of failure to maintain a suitable and sufficient framework resulting in non-compliance with legislative obligations and reputational harm.	**TREND:** Stable (↔)

Return to Risk Radar

PRINCIPAL RISK TABLE

STRATEGIC AMBITION: SERVICE EXCELLENCE		
CRITICAL ASSETS	Risk of failure of a critical asset or assets resulting in an impact to health and/or significant customer concerns.	**TREND:** Stable (⟷)
WATER QUALITY	Risk of production and provision of water which does not comply with standards resulting in an impact to health and/or significant customer concerns.	**TREND:** Stable (⟷)
SUPPLY-DEMAND BALANCE	Risk of inability to provide a continuous supply of water, resulting in an impact to public health, and significant stakeholder and customer concerns.	**TREND:** Increasing (↑)
SUPPLY CHAIN	Risk of failure arising from fragile and structurally challenging supply chains resulting in operational, financial and customer service impacts.	**TREND:** Stable (⟷)
PEOPLE	Risk of failure to deliver core services due to inability to consistently attract, retain and deploy capable and motivated people.	**TREND:** Stable (⟷)

Return to Risk Radar

PRINCIPAL RISK TABLE

STRATEGIC AMBITION: NET ZERO EMISSIONS		
CLIMATE CHANGE	Risk of failure to adapt to extreme and unpredictable weather events on assets and infrastructure resulting in operational and customer service impacts.	**TREND:** Increasing (↑)
ENVIRONMENTAL EXPECTATIONS/ OBLIGATIONS	Risk of failure to meet increasing environmental expectations and obligations, resulting in reputational damage, perceived/actual non-compliance, and enforcement action.	**TREND:** Stable (↔)

Return to Risk Radar

TCFD RISK DISCLOSURE

This table provides our climate-related risk disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). It summarises the climate-related risks and opportunities considered through the TCFD framework. These climate-related risk disclosures are a subset of the above Principal Risk for Climate Change.

TCFD RISK DISCLOSURE		
WATER QUALITY	Risk of 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 (↑)
WATER SUPPLY/DEMAND	Risk of 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, and customer service.	**TREND:** Increasing (↑)
ASSET INTEGRITY	Risk of extreme weather events preventing access to operate and/or damage to assets resulting in operational and customer service impact.	**TREND:** Increasing (↑)
WASTEWATER FLOODING	Risk of increased and/or more intense rainfall events resulting in an overloaded capacity of assets, customer service and environmental impact.	**TREND:** Increasing (↑)
INCREASED REVENUE	Risk of new supplies for growth in industries such as hydrogen and increased domestic connections through climate related migration resulting in additional wholesale revenue.	**TREND:** Increasing (↑)

TCFD Risk Disclosures 2025/26

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, required 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 11 to 81. The principal risks and uncertainties are described on pages 97 to 103.

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 WICS .

As at 31 March 2026, loans received from Government totalled £5.0 billion and Scottish Water group held cash and cash equivalents of £224 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 accordance 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 2032.

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 97 to 103, and the probable degree of effectiveness of current and available mitigating actions.

GOING CONCERN AND VIABILITY STATEMENTS

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

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 since published its 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 2032.

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 HM Treasury, the Civil Aviation Authority, and in local government. He has also held several Non-executive director roles including with NHS Cambridgeshire, the Centre for Cities, and Cambridge Ahead. Alex is a graduate of Nottingham University.

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 worked in telecoms, facilities management and the delivery of public services in Finance and General Management roles. 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.

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 42 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.

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. She was a leading member of several UK and Scottish industry and business government forums including the Women's Business Council. Deirdre is also Chair of the SSEN T Independent Stakeholder Group, 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, and Turning Point Scotland. He is a chartered management accountant and is Audit Chair of the University of Highlands & Islands and Highlands & Islands Enterprise and a member of the Audit & Risk Committees of 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.

Barry White

Barry is an experienced infrastructure leader with a career spanning senior roles across the public and private sectors. A civil engineer by background and former Army officer, he brings a disciplined, delivery-focused approach to complex programmes. Barry has held Chief Executive roles at Scottish Futures Trust and Transport for the North, and senior leadership positions at BAM, Skanska and Morrison Construction. He is currently Chair of Infrastructure Managers Ltd. With deep expertise in infrastructure investment, governance and large-scale delivery, Barry provides strong strategic insight, constructive challenge and a clear focus on long-term value, resilience and sustainable growth.

Non-executive members

Belinda Howell

Belinda has extensive board experience across public, private and not-for-profit sectors, including natural resources, agri-commodities, marine, energy and through the supply chain to retail. She is a biochemist and brings deep expertise in climate change and sustainability strategy and digital transformation. She is Chair of PlantSea Ltd, a Non-Executive board member with Digital Catapult and the London Pensions Fund Authority, and serves on the Export Guarantees Advisory Council.

Catriona Schmolke CBE

Catriona joined the Board of Scottish Water in November 2021 and was appointed Chair of the Remuneration Committee in March 2026. She brings four decades of expertise in the infrastructure sector. She is a Fellow of the Royal Academy of Engineering and holds the positions of Interim Chair of the Nuclear Decommissioning Authority, Chair of Artus Air Ltd and Chair of Nuada Ltd. Additionally, she is a Non-Executive Director and Chair of Major Programmes at the National Physical Laboratory. She is a Lay member of Court and Convener for Safety Health and Wellbeing at Strathclyde University.

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 served 7 years as Chief Executive of National Highways. Graham is a Non-executive director of Energy and Utility Skills Ltd and of Energy and Environment Awards Ltd. He serves on the audit committee of the Royal Academy of Engineering and is a Policy Fellow of the Institution of Civil Engineers.

Non-executive members

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.

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.

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 106 to 109.

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 2025/26, the Board met on 9 occasions to review Scottish Water's operational and financial performance, business strategy and risk management.

UK Corporate Governance Code

Scottish Water complies with the revised UK Corporate Governance Code published by the Financial Reporting Council (FRC) in January 2024, 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 2025 ACM was held at Dundee Science Centre on 28 August 2025.

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 115 to 120 covers the appointment of the external auditor.

CORPORATE GOVERNANCE REPORT

Board and Committees

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

	Board		Audit & Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
Deirdre Michie	9	9	-	-	-	-
Alex Plant	9	9	-	-	-	-
Peter Farrer	9	9	-	-	-	-
Alan Dingwall	9	9	-	-	-	-
Allan Clow	9	9	6	6	-	-
Graham Dalton	9	9	6	6	-	-
Steven Dickson	9	9	-	-	8	8
Belinda Howell	9(5)[28]	5	6(3)[28]	3	-	-
Iain M Lanaghan	9(4)[29]	4	6(3)[29]	3	-	-
Ken Marnoch	9	9	-	-	8	8
Ian McAulay	9	9	6(3)[30]	3	8(5)[30]	5
Catriona Schmolke	9	9	6(3)[31]	3	8(3)[31]	3

[28] Belinda Howell's term commenced on 1 September 2025.

[29] Iain Lanaghan's term ended on 30 September 2025.

[30] Catriona Schmolke left the Audit & Risk Committee and was appointed a member of the Remuneration Committee as at 17 September 2025.

[31] Ian McAulay left the Remuneration Committee and was appointed a member of the Audit & Risk Committee as at 1 October 2025.

CORPORATE GOVERNANCE REPORT

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 115 to 120.

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 121.

Board and Committee Performance

An internal review of Board and Committee effectiveness was undertaken during the financial year of 2025/26. All actions arising from the external review of Board and Committee effectiveness undertaken in 2024/25 have been implemented. Formal annual evaluation processes are in place for all Members, including the Chair. Induction and ongoing training is provided for Members.

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.

CORPORATE GOVERNANCE REPORT

Risk Management

Scottish Water operates a systematic approach to managing risk which is detailed more fully in pages 92 to 103.

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.

CORPORATE GOVERNANCE REPORT

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.

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 2026. I became Chair on 1 October, following the end of Iain Lanaghan's appointment on 30 September. During the year, the Chair was supported by the following Non-Executive Members: Graham Dalton, Catriona Schmolke (until 17 September 2025), Ian McAulay (from 1 October 2025) and Belinda Howell (from 1 September 2025).

I have relevant financial experience, and Committee members were selected to ensure a broad mix of financial, governance, risk and commercial expertise necessary to fulfil the Committee's duties and obligations. The Committee was supported by Scottish Water's Managing Legal Counsel, who acted as Secretary.

Group Audit & Risk Committee Role and Responsibilities

The Group Audit & Risk Committee was established by the Board to support its responsibilities for governance, risk and control, including the provision of assurance and assessment through constructive challenge. While Scottish Water is not a listed company, it adopts, where appropriate, the accounting and disclosure practices of listed companies.

The Committee's governance framework aligns Scottish Water's business strategy with the stages outlined below and links these to the sources of assurance provided by senior management and other assurance providers over 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 Internal Audit plan 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 WICS, including the regulatory Annual Return and draft business plan for SR27;
- 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.

AUDIT & RISK COMMITTEE REPORT

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 wastewater 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 2025/26 the Committee met on 6 occasions, with an extra meeting in June 2025 to review the draft Annual Report & Accounts: Performance and Prospects and another in January 2026 to review outcomes of the SR27 assurance programme.

In addition to the Committee members, the Scottish Water Board Chair, Chief Executive, Chief Financial Officer, Head of Internal Audit, Head of Financial Reporting and Controls, Group Legal Counsel & Director of Governance, and the external audit partner and senior manager 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.

AUDIT & RISK COMMITTEE REPORT

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:

- Assessment of corporate strategic and operational risks, including the effectiveness of risk management controls and risk appetite, and the robustness of risk management and control systems, together with their ongoing monitoring, review, sources of assurance, and related public reporting on 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;
- Discussing specifically requested papers on cyber security and Network and Information Systems (NIS) compliance and supply chain structural risk.
- Reviewing outcomes of the SR27 assurance programme; and
- Reviewing findings and recommendations from an external assessment of Audit & Risk Committee effectiveness.

AUDIT & RISK COMMITTEE REPORT

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 reviewed and was satisfied with the papers prepared by the Head of Financial Reporting and Controls and the external auditor in relation to the 2025/26 full-year financial statements. These included management's assessment of the going concern basis, which the external auditor confirmed to be appropriate. The Committee's view was further supported by the 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, as far as possible, therefore provides assurance that Scottish Water will be adequately funded to deliver its core functions, including the ability to apply to WICS to increase charges where its funding position changes materially.

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 2025/26 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.

AUDIT & RISK COMMITTEE REPORT

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 £40 million, representing 1.8% of total annualised expenses incurred in 2025/26, 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 £2 million, as well as misstatements below that amount that, in their view, warranted reporting for qualitative reasons.

In addition, the Head of Financial Reporting and Controls, the General Manager - Investment Prioritisation and the Chief Scientist carried out a review to verify that the Annual Report & Accounts 2025/26: 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 2025/26: 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 2025/26: 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.

AUDIT & RISK COMMITTEE REPORT

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

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 Internal Audit plan, 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 during the year in July 2025.

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.

Allan Clow
Chair of the Audit & Risk Committee

REMUNERATION COMMITTEE REPORT

Annual Statement by the Chair of the Remuneration Committee

I am pleased to present my first Members' remuneration report, covering the year ended 31 March 2026. In preparing the report I am thankful for the support of my predecessor as Remuneration Committee Chair, Ken Marnoch, and fellow Non-executive Members Steve Dickson and Ian McAulay. As he has now stepped down from the Board, I'd also like to thank Ken for his valued support and contribution to the Remuneration Committee during his tenure.

The Remuneration Committee meets to consider remuneration arrangements for Executive Members, and other related reward matters, making recommendations to the Board. On CEO earnings, Section 2 of this report reveals that these have been maintained at between 10 and 11 times the median earnings for other employees, with this ratio narrowing for the second year running. This is a lower multiple than when such disclosure began seven years ago, and significantly lower than can typically be found in published earnings disclosures at other UK water, wastewater and utility companies, where multiples disclosed may range broadly between 20 and 70-times median employee earnings.

The Remuneration Committee also reviews leadership development and succession planning and receives reports on programmes designed to deliver the skills and talent required by the business today and into the future.

In considering executive remuneration, the Committee maintains a watching brief on pay and reward for all employees and on key metrics such as the gender pay gap. The Committee has noted that, through biennial Public Sector Equality Duties reporting, Scottish Water's pay gap at the end of the 2025 calendar year was nil at the median, while at the mean it was 0.57% in favour of women.

Recommendations on pay must balance the need to deliver value for money in reward, stakeholder expectations and scrutiny, and the ability to operate in a competitive market beyond the public sector, against which the compensation for senior roles is benchmarked. Our programme of triennial benchmarking of the Executive Leadership Team, referred to in Section 1 of this report, highlights that the value of reward available to the most senior leaders in Scottish Water, is falling further from a market competitive position, highlighting future risks for the attraction and retention of suitable talent.

There were eight meetings of the Committee in 2025/26. The higher than usual frequency of meetings allowed the Committee to remain informed on complex employee pay negotiations as they evolved, and to take this into account when considering executive reward. 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, with variable pay and retention delivered through an annual out-performance incentive plan (AOIP) and a single long-term incentive plan (LTIP), which provide clear links between at-risk remuneration and delivery of Scottish Water's key strategic priorities.

Scottish Water has updated how pensionable pay is defined to align with regulations set out by the Scottish Local Government Pension Scheme. This means AOIP payments, both past and future, will now count towards pensionable pay. We are working closely with the pension funds to implement this, which will take time to complete.

REMUNERATION COMMITTEE REPORT

As a result of this action the pension figures included in this report may change. Any change will be disclosed as soon as possible in a future Members' Remuneration Report.

Key decisions made by the Committee over the 2025/26 period were as follows:

Decisions / remuneration for 2025/26

- Concluding the deferred pay review for the Executive Members effective from 1 April 2024, once negotiations on the pay award for other employees for this period were resolved. As noted last year, this affects the earnings figures for 2024/25 in the single figure table in Section 2 of this report, updating them from the figures that could be disclosed last year.
- Concluding the deferred pay review for the Executive Members effective from 1 April 2025, once negotiations on the pay award for other employees for this period were resolved.
- Confirming the 2025/26 AOIP payment calculated at 36.54% of salary out of the 40% maximum opportunity for the three Executive Members.

Decisions / remuneration for 2026/27

- Setting the structure and performance criteria for the 2026/27 AOIP.
- Confirming the pay review for Executive Members effective 1 April 2026 at a percentage value below that available to other employees, continuing a principle where proportionately lower increases are awarded to those at the highest job levels.
- 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 2026.

Our Remuneration Policy and our Annual Report on Remuneration is set out on pages 123 to 138.

Catriona Schmolke
Chair of the Remuneration Committee

MEMBERS' REMUNERATION REPORT

The presentation of this Remuneration Report complies with the HM Treasury Financial Reporting Manual 2025/26 (December 2025) 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, incentivisation and retention 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, attracts and retains necessary talent, rewards performance and empowers its people while providing scope for personal development.

The overall remuneration policy aims are to:

- Attract, develop, motivate and retain highly talented people 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 delivery of outcomes that meet and exceed goals for service, value, sustainability and environmental improvement that are set within our regulatory determinations. The aim is to pay a base salary that is competitive, but appropriate for a public corporation. Variable 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 highlights an ongoing and increasing concern over the ability to retain appropriate senior talent and in the longer term,

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creates risk around future recruitment at this level, as the market moves further away from the value of reward that Scottish Water can offer. We continue to discuss with the Scottish Government how we can attract and retain the skills we need, while delivering on the pay expectations of a responsible public sector employer that must always deliver value for money.

e. Annual Out-performance Incentive Plan

This plan generates at risk variable pay on an annual basis for employees at all levels. Payment is derived from verified out-performance of targeted business measures.
The Remuneration Committee maintains the right to withhold or vary AOIP variable pay (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 payments being made and may affect all or only some of the AOIP recipients. During 2025/26 there was no requirement to exercise these step-in rights.

The potential maximum annual variable pay attainable for exceeding corporate goals by Executive Members is 40% of base salary. Targets, out-performance targets, and actual performance in 2025/26 are set out here.

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

Strategic Outcome	Measure	Targets – all sliding scales	Weight	Performance
Great Values & Financial Sustainability	Tier 1 costs [32 33]	• 50% on achieving the Final Determination cost base and 100% for £30m below Final Determination	20%	£13.3m 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%	+0.8 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%	99.2% commitment accuracy

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

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

Strategic Outcome	Measure	Targets – all sliding scales	Weight	Performance
Service Excellence	Outcome Performance Assessment (OPA) [34]	• Zero below 397 points • 50% at 397 points • 100% at 412 points	20%	413 points
	Household Customer Experience Measure (hCEM)	• Zero below 86.0 points • 50% at 86.0 points • 100% at 89.0 points	5%	87.5 points
	Non household Customer Experience Measure (nhCEM)	• Zero below 87.0 points • 50% at 87.0 points • 100% at 90.0 points	5%	87.8 points
	Developer Customer Experience (dCEM)	• Zero below 79.9 points • 50% at 79.9 points • 100% at 82.9 points	3%	84.7 points
Net Zero	Operational emissions routemap delivered successfully and achieving emissions reductions	• Zero below 41,000 tCO_2e • 50% at 41,000 tCO_2e • 100% at 48,000 tCO_2e	33%	49,012 tCO_2e reduction

Notes

[32] 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.

[33] 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.

[34] The hCEM and nhCEM targets for 2025/26 as declared in last year's report were erroneously stated as lower than actual target ranges (hCEM: 85.0-87.8 points; nhCEM: 86.0-90.0 points). The correct and more stretching targets in this table have been used for business performance tracking throughout the year and as part of AOIP calculations.

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f. Long-Term Incentive Plan to drive sustainable out-performance and retain key talent

The LTIP links at risk variable pay for senior roles to demonstration of sustainable out-performance over time and 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/holding 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 the Remuneration Committee to verify that variable pay earned over a three-year Performance period is not based on short-term decisions, which may later prove unsupportive of long term and sustainable delivery. This allows the Remuneration Committee, if necessary, to intervene and moderate the level of retention payments actually paid out.

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.

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

MEMBERS' REMUNERATION REPORT

The degree to which the LTIP is payable considers stakeholder feedback on transformation progress. This not only links long-term variable pay to Scottish Water's business transformation but provides a credibility check to maintain the integrity of the overall LTIP mechanism. The 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 progress warrants LTIP payments, while recognising 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 retention 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 LTIP.

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.

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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 variable pay 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 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 variable pay or retention 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.

The 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 2025, whilst the median gender pay gap for full-time employees in Scotland as a whole was 3.5% (in favour of men), Scottish Water's median hourly pay for women was the same as men's; and the mean hourly pay gap was in favour of women at -0.57%.[35]

When determining variable 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 variable 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 1 May 2021, replacing the previous Non-executive with such special knowledge.

Notes

[35] The mean is the most common calculation of the average (add up all the values and divide by the number of values); but it can be skewed by extreme, uncommon figures. If the mean and the median are close in value, as they are here, it demonstrates that the data is broadly symmetrical and is not being skewed.

MEMBERS' REMUNERATION REPORT

I. 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:

Deirdre Michie, Chair	31 December 2027
Ian McAulay	31 December 2027
Allan Clow	31 January 2029
Steven Dickson	30 April 2029
Belinda Howell	31 August 2029
Catriona Schmolke	31 October 2029
Graham Dalton	31 March 2030
Barry White	31 March 2030

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

Iain Lanaghan stepped down from the Board at the end of his appointed tenure on 30 September 2025.

Ken Marnoch stepped down from the Board at the end of his appointed tenure on 31 March 2026.

Catriona Schmolke was re-appointed to the Board on 1 November 2025 for a period of four years.

Graham Dalton was re-appointed to the Board on 1 April 2026 for a period of four years.

Belinda Howell was appointed to the Board on 1 September 2025 for a period of four years.

Barry White was appointed to the Board on 1 April 2026 for a period of four years.

MEMBERS' REMUNERATION REPORT

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

As per notes in the 2024/25 report and the Remuneration Committee Chair's statement this year, pay decisions for Executive Members for 2024/25 were deferred into 2025/26, when they were applied with backdating. This means the earnings figures for Mr Plant and Mr Farrer in 2025 shown to the right have been updated and are higher than those that could be disclosed in this table last year. Mr Dingwall was not eligible for a salary increase in 2024/25 due to his start date in June 2024, so his 2025 figures did not require updating. Non-executive Members' figures are unaffected.

The 2025 earnings figures for Mr Dingwall reflect 10 months of service in the year, while the 2026 figures reflect 12 months of service. A large part of the difference between the values in 2025 and 2026 is therefore due to length of service, not an increase to rates of pay.

In the year ending March 2026, Executive Directors received lower percentage increases in salary than the pay awards agreed for other employees.

Executive Members		Salary/ Fees £000	Benefits[26] £000	AOIP[27] £000	Total £000	Pension[28] £000	Total £000
Alex Plant[29]	2026	315	12	115	442	(10)	432
	2025	304	29	109	442	93	535
Peter Farrer[30]	2026	176	11	64	251	29	280
	2025	191	11	69	271	49	320
Alan Dingwall[31]	2026	217	3	79	299	64	363
	2025	175	3	63	241	52	293
Non-executive Members[32]							
Chair Deirdre Michie	2026	107			107		107
	2025	106			106		106
Iain M Lanaghan[33]	2026	14			14		14
	2025	28			28		28
Kenneth Marnoch	2026	29			29		29
	2025	28			28		28
Ian McAulay	2026	23			23		23
	2025	22			22		22
Graham Dalton	2026	23			23		23
	2025	22			22		22

MEMBERS' REMUNERATION REPORT

Executive Members		Salary/ Fees £000	Benefits[26] £000	AOIP[27] £000	Total £000	Pension[28] £000	Total £000
Steven Dickson	2026	23			23		23
	2025	22			22		22
Catriona Schmolke	2026	23			23		23
	2025	22			22		22
Allan Clow[34]	2026	26			26		26
	2025	4			4		4
Belinda Howell[35]	2026	13			13		13
	2025	-			-		-
Total Remuneration	**2026**	**989**	**26**	**258**	**1,273**	**83**	**1,356**
	2025	924	43	241	1,208	194	1,402

Scottish Water has updated how pensionable pay is defined to align with regulations set out by the Scottish Local Government Pension Scheme. This means AOIP payments, both past and future, will now count towards pensionable pay.

We are working closely with the pension funds to implement this, which will take time to complete. As a result of this action the pension figures included in this report may change. Any change will be disclosed as soon as possible in a future Members' Remuneration Report.

Notes

26 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 on page 132. In 2025 benefits also include residual payments made to Mr Plant in relation to his relocation to Scotland to take up the post of Chief Executive.

27 Annual Out-performance Incentive Plan as described in the Executive Remuneration Policy.

28 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 [2025/26]. 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.

29 Figures for Mr Plant have been uplifted for the deferred decision on executive pay 2024/25 as noted above, so that his salary and AOIP figures shown for 2025 are higher than those which could be disclosed last year.

30 Figures for Mr Farrer in 2025 reflect his flexible retirement from 1 October 2024 which reduced his base salary for half of the year. His salary pre and post this reduction were then uplifted for the deferred decision on executive pay 2024/25 as noted above, so that his salary and AOIP figures shown for 2025 are higher than those which could be disclosed last year.

31 Figures for Mr Dingwall for 2025 reflect his time in post as Chief Financial Officer from 1 June 2024.

32 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.

33 Iain Lanaghan stepped down from the Board on 30 September 2025.

34 Allan Clow was appointed to the Board with effect from 1 February 2025 and was then appointed Chair of the Audit & Risk Committee from 1 October 2025.

35 Belinda Howell was appointed to the Board from 1 September 2025.

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The table below shows the amount disclosed for Mr Plant and Mr Farrer in the 2024/25 report, for comparison with the figures now in table 2(a). As noted above, the deferred decision on executive pay for 2024/25 was made in 2025/26 and backdated, so the 2024/25 figures that could be disclosed at the time could not include that backdated pay decision, which is now shown in table 2(a).

		Salary/ Fees £000	Benefits £000	AOIP £000	Total £000	Pension £000	Total £000
Alex Plant	2025	295	29	106	430	93	523
Peter Farrer	2025	185	11	67	263	49	312

Fee levels for Non-executive Members, including the Chair, for 2026/27 will increase on a £12 per day basis with effect from 1 April 2026, in line with Public Sector Pay Strategy for Senior Appointments.

Following a pay award negotiated and agreed for other employees with a value of 3.5% for 2026/27, effective 1 April 2026, salaries for the Executive Directors will be increased by 3.0% from the same date. Salaries for 2026/27 will therefore be as follows: Alex Plant £324,302; Peter Farrer £181,146; Alan Dingwall £223,871.

b. Details of benefits received 2025/26

Name	Car benefit or car allowance £000	Life assurance premium £000	Total £000
Alex Plant	10	2	12
Peter Farrer	10	1	11
Alan Dingwall	2	1	3

MEMBERS' REMUNERATION REPORT

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 to the right presents pension accruals under the regulations of the SLGPS.

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.

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. Scottish Water has updated how pensionable pay is defined to align with regulations set out by the Scottish Local Government Pension Scheme. This means AOIP payments, both past and future, will now count towards pensionable pay.

	Increase in accrued benefits during the year net of inflation			Accumulated total accrued benefits at 31 March 2026[38]		Transfer Values[39]		
Name	Years in Scheme	Pension £000	Lump sum £000	Pension £000	Lump sum £000	At 31 March 2026 £000	At 31 March 2025 £000	Increase in 2025/26 net of Members' own contributions and inflation £000
Alex Plant	2.8	1	-	13	-	201	140	20
Peter Farrer[36]	41.7	3	(4)	121	193	2,528	2,434	(16)
Alan Dingwall[37]	1.8	4	-	8	-	118	51	41

We are working closely with the pension funds to implement this, which will take time to complete. As a result of this action the pension figures included in this report may change. Any change will be disclosed as soon as possible in a future Members' Remuneration Report.

Notes

[36] 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 2026.

[37] All figures for Mr Dingwall are calculated from his start date of 1 June 2024.

[38] 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.

[39] The transfer value of accrued pension is calculated in a manner consistent with Actuarial Guidance Note GN11.

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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 2024/25 to 2025/26.

	Salary	Benefits	AOIP[43]
Chief Executive[40]	3.5%	0.0%[42]	5.5%
All employee median[41]	3.9%	0.0%	1.7%

Notes

40 Change in the Chief Executive salary is a comparison of the uprated full year salary of Mr Plant for 2024/25 with the full year salary paid for 2025/26. The increase was 3.5% but looks fractionally more in the Single Figure table in section 2(a) due to rounding of those figures.

41 Change in employee salary is calculated as the change in the median paid from one year to the next and is affected by both the annual pay award and pay progression through salary ranges.

42 Calculation of the change in Chief Executive benefits does not include the residual, one-off relocation payment in 2024/25 described in the notes to the table in 2(b).

43 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.

The earned remuneration for the post of Chief Executive in the financial year 2025/26 was £442k (2024/25: £425k). This was 10.3 times (2024/25: 10.6) the median remuneration of other employees, which was £42.8k (2024/25: £40.1k).

The change in ratio is affected by two key factors: the Chief Executive and employee earnings figures for 2024/25 were uplifted for the deferred pay award, changing the ratio; and the earned annual incentive payment for all employees, aligned with out-performance against corporate targets, increased a little for employees from one year to the next against a fixed maximum, while for the Chief Executive this variable payment is earned as a percentage of a higher base salary. While Chief Executive variable pay increased by a higher percentage than that for employees, employee salaries increased by a higher percentage than for the Chief Executive. The full range of full time equivalent annual earnings was from £26.4k to £442k (2024/25: £25.1k to £425k). The remuneration range increased due to the same factors described above.

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Remuneration ratio calculations, excluding movement in pension and LTIP[45] £000

	2025/26	2024/25[46]	2023/24[45]	2022/23[47]	2021/22[48]	2020/21	2019/20[49]	2018/19
Chief Executive earnings	442	425	410	362	360	371	375	367
Employees[50]								
Salary 25th percentile	34.1	33.8	30.7	28.4	27.2	26.3	-	-
25th percentile earnings	36.4	34.9	31.7	29.4	28.1	27.2	26.5	25.8
Salary 50th percentile	40.4	38.9	36.2	33.3	31.6	30.7	-	-
50th percentile earnings	42.8	40.1	37.1	34.3	32.7	31.7	30.7	29.9
Salary 75th percentile	49.5	48.5	46.4	42.6	40.5	39.3	-	-
75th percentile earnings	51.1	49.7	47.5	44.9	42.6	40.6	39.5	38.7
Ratio at 25th percentile earnings	12.1	12.2	12.9	12.3	12.8	13.6	14.2	14.2
Ratio at 50th percentile earnings	10.3	10.6	11.1	10.6	11.0	11.7	12.2	12.3
Ratio at 75th percentile earnings	8.6	8.6	8.6	8.1	8.5	9.1	9.5	9.5

Notes

44 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.

45 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 paid in those years.

46 All earnings figures for 2024/25 have been uplifted to reflect the deferred and then backdated pay award for that year which affected employees at all levels, up to and including the Chief Executive. The earnings figures and ratios for 2024/25 above are therefore different from those which could be disclosed in last year's report.
The 2024/25 figures in last year's report that have been superseded were: Chief Executive earnings 413k; employee salary 25th / 50th / 75th percentile, 32.4k / 37.5k / 46.9k; employee earnings 25th / 50th / 75th percentile, 33.5k / 38.7k / 48.1k. Earnings ratios at 25th / 50th / 75th percentile were reported as, 12.3 / 10.7 / 8.6.

47 The Chief Executive Figure for 2022/23 is not actual earnings but uses the full time equivalent salary on 31 March 2023 of £272,499 as if salary had not reduced for flexible retirement in October 2022.

48 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.

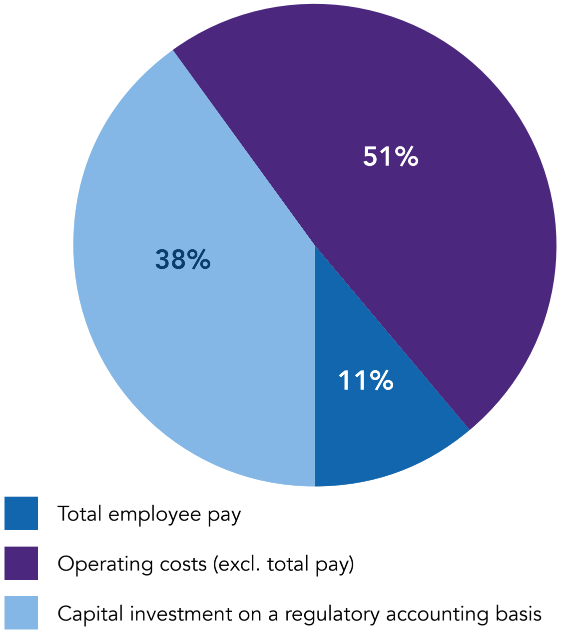
49 The figure for the Chief Executive in 2019/20 uses the single total figure in the table at 2(a) that year, excluding pension, as per note [48], but including the value of waived AOIP in that year of £96k.

50 Employee salary percentiles include all employees, other than Executive Members, with salaries annualised for those who joined during the reporting year and uplifted to full time equivalent rates for those on part time hours. Employee earnings percentiles similarly exclude Executive Members and further exclude those employees who joined during the reporting year who could not receive a full year value of benefits and AOIP. This prevents any under reporting of employee earnings.

MEMBERS' REMUNERATION REPORT

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.



f. Implementation of Remuneration Policy in 2026/27

Scottish Water operates an Annual Out-performance Incentive Plan (AOIP) designed to incentivise and reward the out-performance 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, the Remuneration Committee has agreed an overall incentive framework with Scottish Ministers, within which targets are set each year. For 2026/27 the AOIP targets are as follows.

Gateways

- Tier 1 costs (before LTNC items) to be sufficiently lower than the Final Determination (updated for out-turn inflation) to fund AOIP payments – if this is not achieved, no AOIP is payable to any employee group. [54]
- Progress to the Committed List (PCL) is a second gateway and must achieve 97.5% or more of target for AOIP to be payable.

Strategic Outcome	Weight	Measure (no changes from 2025/26)	Weight	Target Type [53 & 54]
Great Value & Financial Sustainability	34%	Tier 1 costs (before LTNC items) (relative to Final Determination updated for inflation)[55]	20%	Target Zone, £0 to £30m lower than Final Determination (no change from 2025/26)
		IPOD (Indicator of Progress of Delivery)	8%	Tramline +/-3 months to within +/-1 month of target (no change from 2025/26)
		IFAC (Indicator of Forecast Accuracy at Commitment)	6%	Tramline +/- 5%, to +/-1.7% of target (no change from 2025/26)

MEMBERS' REMUNERATION REPORT

Gateways				
Strategic Outcome	**Weight**	**Measure (no changes from 2025/26)**	**Weight**	**Target Type [53 & 54]**
Service Excellence	33%	Outcome Performance Assessment (OPA)	20%	Target Zone 400 to 415 points (2025/26: 397 to 412 points)
		Household Customer Experience Measure (hCEM)	5%	Target Zone 86.0 to 89.0 points (2025/26: 86.0 to 89.0)
		Non household Customer Experience Measure (nhCEM)	5%	Target Zone 87.0 to 90.0 points (2025/26: 87.0 to 90.0)
		Developer Customer Experience Measure (dCEM)	3%	Target Zone 82.5 to 86.5 points (2025/26: 79.9 to 82.9)
Net Zero	33%	Operational emissions routemap reductions	33%	Target Zone 49,000 – 60,000 tCO_2e cumulative reduction (2025/26: 41,000 – 48,000 tCO_2e)

Notes

[51] 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.
[52] 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.
[53] 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.
[54] 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.

MEMBERS' REMUNERATION REPORT

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 and values were disclosed in our Members' Remuneration Report 2023/24. Targets for the performance period 2024-27 are set out in the table below, and if earned, would be vested to become payable in 2030.

Gateways			
• Tier 1 costs [58] 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) [55]	Sliding scale of £0m to £100m out-performance 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) [56]
Net Zero	33%	Operational emissions routemap reductions	Sliding scale from 45,000 tCO_2e reduction to 60,000 tCO_2e reduction [57]

[55] 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.
[56] Current OPA target zone is 400 to 415 points, although this can be adjusted annually. Therefore, performance across 2024-27 is an aggregate against the target zones defined for each year.
[57] 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 route map.

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:

Catriona Schmolke
Chair of the Remuneration Committee
6 June 2026

MEMBERS' REPORT

The Members present the Members' report together with the audited consolidated financial statements for the year ended 31 March 2026.

The Government Financial Reporting Manual 2025/26 (FReM), published by HM Treasury, sets out the form and content for the Annual Report & Accounts 2025/26: 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 141 to 144 and the sections of this report incorporated by reference are as follows:

Corporate governance report	See pages 110 to 114
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 11 to 81
Going concern and viability statements	See pages 104 to 105
Reducing emissions	See pages 58 to 64
People	See pages 65 to 70
Accounting requirements and basis of account preparation	See Note 1.2, page 151
Financial risk management	See pages 188 to 190

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.

MEMBERS' REPORT

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 129 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 5,076 (2025: 4,934) 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 19.

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 on page 65 to 70.

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 wastewater.

Political Contributions

No political contributions were made during the year (2025: 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 **www.scottishwater.co.uk** following the approval of the Scottish Water Annual Report & Accounts 2025/26: Performance and Prospects. The report for this financial year will be available later in 2026.

MEMBERS' REPORT

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 143 to 146, 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 2025/26: 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.

MEMBERS' REPORT

Each of the Members, whose names and functions are listed in the Board Members section on pages 106 to 109, 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; and

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
24 June 2026

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 2026 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 material accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, and, where appropriate, as interpreted and adapted by the 2025/26 Government Financial Reporting Manual ("the 2025/26 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 2026 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 appropriate, as interpreted and adapted by the 2025/26 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 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. 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

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 a going concern, 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 skillfulness 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.

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INDEPENDENT AUDITOR'S REPORT

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 24 to 104 within the Strategic Report and 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 24 to 104 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

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 separate 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

16 July 2026

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CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2026

		Group		Company	
		2026	2025 Restated	2026	2025 Restated
	Note	£m	£m	£m	£m
Revenue	3	**2,360.3**	**2,086.7**	**1,737.8**	**1,579.5**
Cost of sales		(1,813.0)	(1,678.2)	(1,273.4)	(1,250.9)
Gross surplus		**547.3**	**408.5**	**464.4**	**328.6**
Administrative expenses		(184.2)	(177.3)	(120.5)	(114.8)
Operating surplus	3, 4	**363.1**	**231.2**	**343.9**	**213.8**
Finance income	7	9.0	14.4	4.4	11.1
Finance costs	7	(173.5)	(164.2)	(176.0)	(165.7)
Surplus before taxation		**198.6**	**81.4**	**172.3**	**59.2**
Taxation	8	(67.2)	(32.6)	(58.9)	(25.5)
Surplus for the year	21	**131.4**	**48.8**	**113.4**	**33.7**

Refer to Note 30 for further information on the prior year restatement.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2026

		Group		Company	
		2026	2025 Restated	2026	2025 Restated
	Note	£m	£m	£m	£m
Surplus for the year	21	131.4	48.8	113.4	33.7
Other comprehensive income:					
Items which will not subsequently be reclassified to the income statement					
Actuarial gain /(loss) on post employment benefit obligations, net of deferred taxation	21, 22	23.0	(36.2)	22.6	(36.8)
Total comprehensive income/(loss) for the year		154.4	12.6	136.0	(3.1)

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 MARCH 2026

		Group		Company	
		2026	2025 Restated	2026	2025 Restated
	Note	£m	£m	£m	£m
Assets					
Non-current assets					
Property, plant and equipment	9	8,301.9	7,885.6	8,265.5	7,852.6
Intangible assets	10	8.1	15.1	5.6	10.5
Investments	11	–	–	37.6	37.6
Deferred tax asset	16	1.4	1.9	–	–
		8,311.4	7,902.6	8,308.7	7,900.7
Current assets					
Inventories	12	6.4	4.6	6.4	4.6
Assets held for sale	9	4.2	3.1	4.2	–
Trade and other receivables	13	382.8	340.2	158.0	131.6
Current tax asset		7.3	11.2	14.1	11.6
Cash and cash equivalents	14	223.6	269.9	64.9	136.4
		624.3	629.0	247.6	284.2
Total assets	3	**8,935.7**	**8,531.6**	**8,556.3**	**8,184.9**
Liabilities					
Current liabilities					
Trade and other payables	15	(582.2)	(583.0)	(462.0)	(466.6)
Other loans and borrowings	18	(24.0)	(24.7)	(23.6)	(24.2)
Provisions for liabilities	17	(22.5)	(11.2)	(25.4)	(14.1)
		(628.7)	(618.9)	(511.0)	(504.9)
Non-current liabilities					
Trade and other payables	15	(126.6)	(109.7)	(88.4)	(83.0)
Other loans and borrowings	18	(106.7)	(125.1)	(103.1)	(121.0)
Deferred tax liabilities	16	(785.7)	(711.7)	(783.1)	(708.9)
Retirement benefit obligations	22	(77.6)	(79.1)	(77.6)	(79.1)
Provisions for liabilities	17	(6.6)	(7.7)	(8.4)	(9.3)
		(1,103.2)	(1,033.3)	(1,060.6)	(1,001.3)
Total liabilities		**(1,731.9)**	**(1,652.2)**	**(1,571.6)**	**(1,506.2)**
Net assets		**7,203.8**	**6,879.4**	**6,984.7**	**6,678.7**
Equity					
Government loans	19	5,044.4	4,874.4	5,044.4	4,874.4
Retained earnings	21	2,026.0	1,871.6	1,806.9	1,670.9
Other reserves		133.4	133.4	133.4	133.4
		7,203.8	**6,879.4**	**6,984.7**	**6,678.7**

The financial statements on pages 147 to 194 were approved by the Board of Members on 24 June 2026 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 2024 as previously stated		1,866.8	133.4	2,000.2
Restatement of retained earnings in relation to retirement benefit obligations	30	(7.8)	–	(7.8)
Restated balance at 1 April 2024		1,859.0	133.4	1,992.4
Surplus for the year (as restated)	21	48.8	–	48.8
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax (as restated)	21, 22	(36.2)	–	(36.2)
Total comprehensive income for the year (as restated)		12.6	–	12.6
Balance at 31 March 2025 (as restated)	21	**1,871.6**	**133.4**	**2,005.0**
Surplus for the year	21	131.4	–	131.4
Other comprehensive income:				
Actuarial gain on post employment benefit obligations, net of tax	21, 22	23.0	–	23.0
Total comprehensive income for the year		154.4	–	154.4
Balance at 31 March 2026	21	**2,026.0**	**133.4**	**2,159.4**

COMPANY STATEMENT OF CHANGES IN EQUITY

	Note	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2024 as previously stated		1,681.8	133.4	1,815.2
Restatement of retained earnings in relation to retirement benefit obligations	30	(7.8)	–	(7.8)
Restated balance at 1 April 2024		1,674.0	133.4	1,807.4
Surplus for the year (as restated)	21	33.7	–	33.7
Other comprehensive income:				
Actuarial loss on post employment benefit obligations, net of tax (as restated)	21, 22	(36.8)	–	(36.8)
Total comprehensive loss for the year (as restated)		(3.1)	–	(3.1)
Balance at 31 March 2025 (as restated)	**21**	**1,670.9**	**133.4**	**1,804.3**
Surplus for the year	21	113.4	–	113.4
Other comprehensive income:				
Actuarial gain on post employment benefit obligations, net of tax	21, 22	22.6	–	22.6
Total comprehensive income for the year		136.0	–	136.0
Balance at 31 March 2026	21	**1,806.9**	**133.4**	**1,940.3**

The ‘Statement of changes in equity’ above excludes Government loans which, in accordance with the Scottish Water Governance Directions, 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 2026

		Group		Company	
	Note	2026 £m	2025 Restated £m	2026 £m	2025 Restated £m
Surplus before taxation		198.6	81.4	172.3	59.2
Depreciation charges	9	394.2	375.5	391.4	372.6
Amortisation of intangible asset	10	10.4	14.3	8.3	10.5
Amortisation of grants		(2.1)	(6.1)	(1.8)	(1.9)
Surplus on disposal of property, plant and equipment		(1.3)	(1.5)	(1.6)	(1.6)
Non cash adjustment for retirement benefit obligations		(11.1)	0.4	(11.4)	-
Finance costs – net		164.5	149.8	171.6	154.6
Operating cash flow before changes in working capital and provisions		**753.2**	**613.8**	**728.8**	**593.4**
Changes in working capital and provisions:					
(Increase)/decrease in receivables		(13.0)	0.7	3.2	(1.8)
(Increase)decrease in inventories		(1.8)	0.3	(1.8)	(0.2)
Increase in payables		20.7	63.7	6.1	43.5
Increase/(decrease) in provisions		14.2	(1.3)	14.4	(3.7)
Cash flows from operating activities		**773.3**	**677.2**	**750.7**	**631.2**
Taxation received		3.5	9.7	5.3	16.5
Net cash generated from operating activities		776.8	686.9	756.0	647.7
Cash flows from investing activities					
Purchase of property, plant and equipment		(833.6)	(800.0)	(828.4)	(796.0)
Sale of property, plant and equipment		4.6	14.3	2.0	2.3
Purchase of intangible assets	10	(3.4)	(6.1)	(3.4)	(6.1)
Government grant income received		7.0	2.6	6.7	2.4
Infrastructure income receipts		14.1	12.9	14.1	12.9
Net cash used in investing activities		(811.3)	(776.3)	(809.0)	(784.5)
Cash flows from financing activities					
Repayments of loans		(127.4)	(168.6)	(127.4)	(168.6)
Proceeds from borrowings		297.4	338.6	297.4	338.6
Interest received		9.0	14.4	4.4	11.1
Interest paid		(165.5)	(160.0)	(168.1)	(161.8)
Payment of finance lease liabilities		(25.3)	(27.2)	(24.8)	(26.3)
Net cash used in financing activities		(11.8)	(2.8)	(18.5)	(7.0)
Net decrease in cash and cash equivalents		**(46.3)**	**(92.2)**	**(71.5)**	**(143.8)**
Cash and cash equivalents at beginning of year	14	269.9	362.1	136.4	280.2
Cash and cash equivalents at end of year	14	**223.6**	**269.9**	**64.9**	**136.4**

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NOTES TO THE FINANCIAL STATEMENTS
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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 2026 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 issued, but not yet adopted by the Group

IFRS 18 "Presentation and Disclosure in Financial Statements" was issued in April 2024 and will be effective for accounting periods beginning on or after 1 January 2027 (1 April 2027 for the Group). The standard replaces IAS 1 "Presentation of Financial Statements". The new standard does not amend the principles of recognition and measurement and so will not impact the financial results of the Group. However, it will impact the presentation of the consolidated financial statements, in particular the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2026

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 wastewater 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 wastewater 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 wastewater 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2026

1 Accounting policies (continued)

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.

Deferred tax is recognised, using the liability method, on temporary differences 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 wastewater 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 wastewater 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]	1 to 60 years

[1] 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
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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
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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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
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1 Accounting policies (continued)

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
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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 wastewater 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. Classification of costs between operating expenditure and capital expenditure
Scottish Water's business involves providing water and wastewater services to households and businesses in Scotland. This requires significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgment to be made. The judgments are made based on objective criteria that the Group has developed to facilitate the consistent application of its accounting policies and alignment with accounting standards. The costs of repairs for water and wastewater services are recognised in the income statement as they arise. Total repair expenditure during the year was £317 million (2025: £337 million).

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2 Accounting estimates and judgements (continued)

e. 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.

f. 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.

3 Segmental analysis

The principal activities of the Scottish Water group of companies are the supply of water and wastewater 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 wastewater collection, treatment and distribution within cost of sales.

Scottish Water's reportable segments are the provision of regulated water and wastewater services, Business Stream (a Licensed Provider in the supply of water and wastewater 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.

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3 Segmental analysis (continued)

	Group		Company	
	2026 £m	2025 Restated £m	2026 £m	2025 Restated £m
Revenue				
Scottish Water regulated water and wastewater services	1,737.8	1,579.5	1,737.8	1,579.5
Business Stream	838.7	707.5	–	–
Scottish Water non-regulated activities	15.3	18.9	–	–
	2,591.8	2,305.9	1,737.8	1,579.5
Intercompany elimination	(231.5)	(219.2)	–	–
	2,360.3	**2,086.7**	**1,737.8**	**1,579.5**
Operating Costs				
Scottish Water regulated water and wastewater services	(1,393.9)	(1,365.7)	(1,393.9)	(1,365.7)
Business Stream	(820.7)	(692.4)	–	–
Scottish Water non-regulated activities	(14.0)	(22.0)	–	–
	(2,228.6)	(2,080.1)	(1,393.9)	(1,365.7)
Intercompany elimination	231.4	224.6	–	–
	(1,997.2)	**(1,855.5)**	**(1,393.9)**	**(1,365.7)**
Operating surplus				
Scottish Water regulated water and wastewater services	343.9	213.8	343.9	213.8
Business Stream	18.0	15.1	–	–
Scottish Water non-regulated activities	1.3	(3.1)	–	–
	363.2	225.8	343.9	213.8
Intercompany elimination	(0.1)	5.4	–	–
	363.1	**231.2**	**343.9**	**213.8**
Total assets				
Scottish Water regulated water and wastewater services	8,519.1	8,146.4	8,556.3	8,184.9
Business Stream	325.8	294.9	–	–
Scottish Water non-regulated activities	90.8	90.3	–	–
	8,935.7	**8,531.6**	**8,556.3**	**8,184.9**

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3 Segmental analysis (continued)

	Capital additions to property, plant & equipment		Depreciation on property, plant & equipment	
	2026 £m	2025 £m	2026 £m	2025 £m
Scottish Water regulated water and wastewater services	812.2	777.9	391.4	372.6
Business Stream	3.3	1.1	1.5	1.4
Scottish Water non-regulated activities	2.9	2.5	1.3	1.5
	818.4	**781.5**	**394.2**	**375.5**

Revenue by geographical location of customers is as follows:

	Revenue	
	2026 £m	2025 £m
United Kingdom	2,360.2	2,086.4
Rest of the World	0.1	0.3
	2,360.3	**2,086.7**

£0.1 million of revenue has been generated outside the UK (2025: £0.3 million) and this resulted in a current tax charge of £nil (2025: £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):

	Note	2026 £m	2025 £m
Scottish Water PFI operating costs		138.4	135.7
Depreciation of property, plant and equipment	9	394.2	375.5
Amortisation of intangible asset	10	10.4	14.3
Profit on sale of property, plant and equipment		(1.3)	(1.5)
Release of deferred income in relation to capital grants		(2.1)	(6.1)
Auditor's remuneration[2]			
– audit fee for audit of the company and consolidated financial statements including £287,000 (2025: £318,349) in respect of the audit of subsidiary companies		0.9	0.8
– other services		–	–
Research and development expenditure		–	(0.2)

[2] 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	
		2026	2025 Restated	2026	2025 Restated
	Note	£m	£m	£m	£m
Wages and salaries		249.3	228.6	228.7	209.1
Social security costs		33.6	26.9	30.9	24.8
IAS 19 total service costs	22	24.8	33.1	24.3	32.4
Other pension costs		0.8	0.6	–	–
Employee benefit expense		308.5	289.2	283.9	266.3
Less: charged as capital expenditure		(116.6)	(117.3)	(114.9)	(114.9)
		191.9	**171.9**	**169.0**	**151.4**

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

	2026	2025
Regulated water and wastewater services	4,666	4,529
Business Stream	298	291
Scottish Water non-regulated activities	112	114
	5,076	**4,934**

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 2026 earning £245 per day or greater.

	Regulated water and wastewater services[4]	Business Stream	Non-regulated services
No. of existing engagements as at 31 March 2026	73	5	–
of which, at time of reporting…			
Number that have existed for less than one year	7	5	–
Number that have existed for between one and two years	7	–	–
Number that have existed for between two and three years	12	–	–
Number that have existed for between three and four years	7	–	–
Number that have existed for four or more years	40	–	–

All off-payroll workers engaged at any point during the year ended 31 March 2026 earning £245 per day or greater.

No. of temporary off-payroll workers engaged during the year ended 31 March 2026	126	9	–
of which…			
Not subject to off-payroll legislation	126	–	–
Subject to off-payroll legislation and determined as in-scope of IR35	–	2	–
Subject to off-payroll legislation and determined out-of-scope of IR35	–	7	–
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 2025 and 31 March 2026.

	Regulated water and wastewater services[3]	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.	19	16	15

[3]Scottish Water does not engage with off-payroll workers where Scottish Water is the end client. For regulated water and wastewater 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.

	2026 £m	2025 £m
Regulated water and wastewater services	13.7	19.6
Business stream	4.4	3.7
Non-regulated activities	–	0.1
	18.1	**23.4**

6 Members' remuneration

Information concerning Members' remuneration, incentive schemes and pensions is detailed in the Remuneration Report on pages 123 to 138.

7 Finance income and costs

		Group		Company	
		2026	2025 Restated	2026	2025 Restated
	Note	£m	£m	£m	£m
Interest income:					
Short-term deposits		9.0	14.4	4.4	11.1
Interest on pension scheme net assets	22	–	–	–	–
Finance income		**9.0**	**14.4**	**4.4**	**11.1**
Interest expense:					
Government loans		(155.7)	(148.9)	(155.7)	(148.9)
Other loans		(2.8)	(2.5)	(5.8)	(4.5)
Finance lease liabilities		(8.5)	(9.9)	(8.2)	(9.6)
Interest on pension scheme net liabilities	22	(6.5)	(2.9)	(6.3)	(2.7)
Finance costs		**(173.5)**	**(164.2)**	**(176.0)**	**(165.7)**
Net finance costs		**(164.5)**	**(149.8)**	**(171.6)**	**(154.6)**

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8 Taxation

	Note	Group 2026 £m	Group 2025 Restated £m	Company 2026 £m	Company 2025 Restated £m
Analysis of tax charge recognised in the income statement					
Current tax: UK corporation tax		–	–	(7.5)	(6.3)
Adjustment in respect of prior years		0.4	(6.0)	(0.2)	(5.3)
		0.4	(6.0)	(7.7)	(11.6)
Deferred tax: Origination and reversal of timing differences					
– current year		54.3	26.4	54.6	25.0
– prior years		12.5	12.2	12.0	12.1
	16	66.8	38.6	66.6	37.1
Total tax charge		**67.2**	**32.6**	**58.9**	**25.5**
The charge for the year can be reconciled to the surplus per the income statement as follows:					
Group surplus before tax		198.6	81.4	172.3	59.2
Tax on surplus on ordinary activities at standard UK corporation tax rate of 25% (2025: 25%)		49.7	20.4	43.1	14.8
Adjustment in respect of prior years		12.9	6.2	11.8	6.8
Impact of change in UK corporation tax rate		–	–	–	–
Accounting gain with no capital gain		(1.4)	(0.3)	(0.4)	(0.4)
Depreciation on non qualifying additions		3.9	3.9	3.9	3.9
Other permanent differences		1.4	1.6	0.5	0.4
Previously unrecognised deferred tax asset now recognised		–	(0.1)	–	–
Other timing differences		0.7	0.9	–	–
Total tax charge for the year		**67.2**	**32.6**	**58.9**	**25.5**

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 2026 £m	Group 2025 Restated £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	198.6	81.4
Tax on surplus on ordinary activities at standard UK corporation tax rate of 25% (2025: 25%)	49.7	20.4
Relief for capital allowances in excess of depreciation	(87.3)	(81.6)
Financial transactions timing differences	9.5	(2.6)
Increase in tax losses	22.8	58.3
Expenses not deductible for tax purposes	1.4	1.6
Depreciation on non qualifying additions	3.9	3.9
Adjustment in respect of prior years	0.4	(6.0)
Current tax charge for the year	**0.4**	**(6.0)**

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8 Taxation (continued)

The Group's current tax charge is lower than the UK headline rate of 25% (2025: lower) primarily due to the availability of capital allowances and group relief. The prior year adjustment for current tax includes adjustments for final 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.

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 ending 31 March 2026 (2025: nil).

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 are effective for the group from the accounting period ending 31 March 2025 onwards. An assessment was carried out and the group concluded that it falls 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. Accordingly, the group does not expect an exposure to Pillar 2 taxes for the year ending 31 March 2026. The group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

	Note	Group 2026 £m	Group 2025 Restated £m	Company 2026 £m	Company 2025 Restated £m
Tax charge recognised directly in reserves					
Deferred tax relating to:					
Pension scheme actuarial movements	22	7.7	(12.1)	7.6	(12.2)
Total	16	**7.7**	**(12.1)**	**7.6**	**(12.2)**

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9 Property, plant and equipment

	Specialised operational properties and structures £m	Assets held for sale £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 2024	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[4]	(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
Additions	0.1	–	2.7	–	3.7	811.9	818.4
Disposals[4]	(53.1)	(6.1)	(5.9)	–	(120.5)	–	(185.6)
Reclassifications	148.8	15.0	(3.1)	186.5	340.7	(691.3)	(3.4)
At 31 March 2026	3,749.3	15.0	122.6	3,600.4	3,728.8	1,588.7	12,804.8
Accumulated depreciation							
At 1 April 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[4]	(50.2)	(0.6)	(1.0)	–	(132.9)	–	(184.7)
Reclassifications	–	–	–	–	–	–	–
At 31 March 2025	1,392.1	3.0	36.9	668.5	2,186.2	–	4,286.7
Charge for the year	74.3	0.4	4.4	25.6	289.5	–	394.2
Disposals[4]	(52.9)	(3.0)	(5.9)	–	(120.4)	–	(182.2)
Reclassifications	(7.6)	10.4	(2.6)	–	(0.2)	–	–
At 31 March 2026	1,405.9	10.8	32.8	694.1	2,355.1	–	4,498.7
Net book value							
At 31 March 2026	**2,343.4**	**4.2**	**89.8**	**2,906.3**	**1,373.7**	**1,588.7**	**8,306.1**
At 31 March 2025	2,261.4	3.1	92.0	2,745.4	1,318.7	1,468.1	7,888.7

[4]Disposals include the write down of redundant assets no longer in beneficial use.

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 £2.0 million (2025: £1.2 million). Capital grants of £4.3 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 2025/26 the amount utilised in relation to infrastructure charges and netted against property, plant and equipment was £25.7 million (2025: £16.6 million).

Assets held for sale
As at the balance sheet date, Scottish Water is in the process of selling Fairmilehead Office (55 Buckstone Terrace, EH10 6XH), which holds a net book value of £4.2 million as at 31 March 2026. The sale is expected to be completed within the financial year ending 31 March 2027 at a value higher than the carrying value of the assets. Under IFRS 5 'Non-current assets held for sale and discontinued operations', assets are held for sale at the lower of net book value or fair value; consequently, they have been presented within the financial statements at their book value.

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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	Total £m
Group cost				
At 1 April 2025	1.1	14.2	8.1	23.4
Additions	2.8	2.7	3.4	8.9
Disposals	–	–	(1.1)	(1.1)
At 31 March 2026	3.9	16.9	10.4	31.2
Accumulated depreciation				
At 1 April 2025	0.1	0.6	2.9	3.6
Charge for the year	3.4	0.6	2.9	6.9
Disposals	–	–	(1.1)	(1.1)
At 31 March 2026	3.5	1.2	4.7	9.4
Net book value				
At 31 March 2026	**0.4**	**15.7**	**5.7**	**21.8**
At 1 April 2025	1.0	13.6	5.2	19.8

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9 Property, plant and equipment (continued)

	Specialised operational properties and structures £m	Assets held for sale £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 2024	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[5]	(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
Additions	0.1	–	2.7	–	3.4	806.0	812.2
Disposals[5]	(53.1)	–	(5.9)	–	(101.8)	–	(160.8)
Reclassifications	148.3	15.0	(3.1)	186.5	340.1	(690.2)	(3.4)
At 31 March 2026	3,718.5	15.0	117.4	3,600.4	3,724.9	1,581.0	12,757.2
Accumulated depreciation							
At 1 April 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[5]	(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
Reclassification	(7.6)	10.4	(2.6)	–	(0.2)	–	0.0
Charge for the year	73.0	0.4	3.4	25.6	289.0	–	391.4
Disposals[5]	(52.9)	–	(5.9)	–	(101.7)	–	(160.5)
At 31 March 2026	1,399.2	10.8	31.8	694.1	2,351.6	–	4,487.5
Net book value							
At 31 March 2026	**2,319.3**	**4.2**	**85.6**	**2,906.3**	**1,373.3**	**1,581.0**	**8,269.7**
At 31 March 2025	2,236.5	–	86.8	2,745.4	1,318.7	1,465.2	7,852.6

[5]Disposals include the write down of redundant assets no longer in benefixcial 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	Total £m
Company cost				
At 1 April 2025	1.1	9.0	7.8	17.9
Additions	0.1	2.7	3.4	6.2
Disposals	–	–	(1.1)	(1.1)
Reclassifications	–	–	–	–
At 31 March 2026	1.2	11.7	10.1	23.0
Accumulated depreciation				
At 1 April 2025	0.1	0.6	2.3	3.0
Charge for the year	–	0.6	2.9	3.5
Disposals	–	–	(1.1)	(1.1)
Reclassifications	–	–	–	–
At 31 March 2026	0.1	1.2	4.1	5.4
Net book value				
At 31 March 2026	**1.1**	**10.5**	**6.0**	**17.6**
At 1 April 2025	1.0	8.4	5.5	14.9

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, 2025	460.0	460.0
Accumulated depreciation		
At 1 April 2024	297.0	297.0
Charge for the year	12.1	12.1
At 31 March 2025	309.1	309.1
Charge for the year	10.7	10.7
At 31 March 2026	319.8	319.8
Net book value		
At 31 March 2026	**140.2**	**140.2**
At 31 March 2025	150.9	150.9

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10 Intangible assets

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 2024	87.7	23.2	110.9
Additions	6.1	–	6.1
Disposals	2.9	–	2.9
At 31 March 2025	96.7	23.2	119.9
Additions	3.4	–	3.4
Disposals[6]	(9.9)	–	(9.9)
At 31 March 2026	90.2	23.2	113.4
Accumulated amortisation			
As at 1 April 2024	71.8	18.7	90.5
Amortisation charge	11.8	2.5	14.3
Disposals	–	–	–
At 31 March 2025	83.6	21.2	104.8
Amortisation charge	9.7	0.7	10.4
Disposals[6]	(9.9)	–	(9.9)
At 31 March 2026	83.4	21.9	105.3
Net book value			
At 31 March 2026	**6.8**	**1.3**	**8.1**
At 31 March 2025	13.1	2.0	15.1

[6]Disposals include the write down of redundant assets no longer in beneficial use.

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10 Intangible assets (continued)

	Software £m	Investments £m	Total £m
Company Cost			
As at 1 April 2024	81.3	–	81.3
Additions	6.1	–	6.1
Disposals	2.9	–	2.9
At 31 March 2025	90.3	–	90.3
Additions	3.4	–	3.4
Disposals	(9.9)	–	(9.9)
At 31 March 2026	83.8	–	83.8
Accumulated amortisation			
As at 1 April 2024	69.3	–	69.3
Amortisation charge	10.5	–	10.5
Disposals	–	–	–
At 31 March 2025	79.8	–	79.8
Amortisation charge	8.3	–	8.3
Disposals[7]	(9.9)	–	(9.9)
At 31 March 2026	78.2	–	78.2
Net book value			
At 31 March 2026	**5.6**	**–**	**5.6**
At 31 March 2025	10.5	–	10.5

[7]Disposals include the write down of redundant assets no longer in beneficial use.

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11 Investments

	Company	
	2026 £m	2025 £m
Cost and net book value		
At 31 March	**37.6**	**37.6**

Investments 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[8]*	Scotland	100.0	Holding company
Scottish Water Business Stream Limited[9]	Scotland	100.0	Licensed water and wastewater services
Scottish Water Horizons Limited[8]	Scotland	100.0	Commercial non-regulated water and wastewater services
Scottish Water Services (Grampian) Limited[8]*	Scotland	100.0	Wastewater services operator
Bandwidth Energy Limited[12]*	Scotland	100.0	Non-trading
Aberdeen Environmental Services Limited[10]*	Scotland	100.0	Non-trading
Aberdeen Environmental Services (Holdings) Limited[11]	Scotland	100.0	Non-trading
Aberdeen Holdco Limited	England & Wales	100.0	Non-trading

[8]owned by Scottish Water Horizons Holdings Limited
[9]owned by Scottish Water Business Stream Holdings Limited
[10]owned by Aberdeen Environmental Services (Holdings) Limited
[11]owned by Aberdeen Holdco Limited
[12]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 2026. 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[13]

Scottish Water International Limited[14]

[13]owned by Scottish Water Business Stream Limited
[14]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	
	2026 £m	2025 £m	2026 £m	2025 £m
Raw materials and consumables	6.7	4.8	6.7	4.8
Less provision held	(0.3)	(0.2)	(0.3)	(0.2)
	6.4	**4.6**	**6.4**	**4.6**

All inventories will be recovered within 12 months.

During the year to March 2026, inventories recognised within cost of sales were £2.6 million (2025: £2.3 million).

13 Trade and other receivables

		Group		Company	
	Note	2026 £m	2025 £m	2026 £m	2025 £m
Net trade receivables	26	257.7	232.4	116.3	94.0
Other receivables		24.4	23.1	20.4	20.0
Prepayments and accrued income		100.7	84.7	21.3	17.6
		382.8	**340.2**	**158.0**	**131.6**

Management considers the carrying value of trade and other receivables to be equal to the fair value.

14 Cash and cash equivalents

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Cash at bank and in hand	158.9	185.2	15.2	51.7
Short-term bank deposits	64.7	84.7	49.7	84.7
Cash and cash equivalents per the statement of cash flows	**223.6**	**269.9**	**64.9**	**136.4**

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 £25.8 million (2025: £21.8 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	
	2026 £m	2025 £m	2026 £m	2025 £m
Current				
Trade payables	82.5	78.2	33.8	35.1
Non trade payables and accruals	128.7	128.0	127.6	127.7
Accruals	201.9	217.3	134.0	152.6
Payments received in advance	124.0	118.2	89.0	82.8
Other payables	35.4	32.8	2.8	1.9
Deferred income	2.8	2.8	1.6	1.6
Other taxes and social security	6.9	5.7	6.4	5.2
Amounts due to subsidiaries	–	–	66.8	59.7
	582.2	**583.0**	**462.0**	**466.6**
Non-current				
Payments received in advance	107.8	94.7	76.4	75.5
Deferred income	18.8	15.0	12.0	7.5
	126.6	**109.7**	**88.4**	**83.0**

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 Restated £m	Tax losses £m	Other £m	Total Restated £m
Group						
At 1 April 2024 as previously reported		768.4	(5.2)	(55.5)	(21.8)	685.9
Restatement in relation to retirement benefit obligations	30	–	(2.6)	–	–	(2.6)
Restated balance at 1 April 2024		768.4	(7.8)	(55.5)	(21.8)	683.3
Charge/(credit) to income statement (as restated)	8	106.9	0.1	(70.8)	2.4	38.6
Credit to reserves (as restated)	8, 22	–	(12.1)	–	–	(12.1)
At 31 March 2025 (as restated)		875.3	(19.8)	(126.3)	(19.4)	709.8
Charge/(credit) to income statement	8	104.1	(7.3)	(37.5)	7.5	66.8
Charge to reserves	8, 22	–	7.7	–	–	7.7
At 31 March 2026		**979.4**	**(19.4)**	**(163.8)**	**(11.9)**	**784.3**
Company						
At 1 April 2024 as previously reported		767.6	(5.2)	(54.8)	(21.0)	686.6
Restatement of retaining in relation to retirement benefit obligations	30	–	(2.6)	–	–	(2.6)
Restated balance at 1 April 2024		767.6	(7.8)	(54.8)	(21.0)	684.0
Charge/(credit) to income statement (as restated)	8	106.3	0.2	(70.5)	1.1	37.1
Credit to reserves (as restated)	8, 22	–	(12.2)	–	–	(12.2)

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16 Deferred taxation (continued)

	Note	Accelerated capital allowances £m	Retirement benefit obligations Restated £m	Tax losses £m	Other £m	Total Restated £m
At 31 March 2025 (as restated)		873.9	(19.8)	(125.3)	(19.9)	708.9
Charge/(credit) to income statement	8	103.7	(7.2)	(37.3)	7.4	66.6
Charge to reserves	8, 22	–	7.6	–	–	7.6
At 31 March 2026		**977.6**	**(19.4)**	**(162.6)**	**(12.5)**	**783.1**

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	
	Note	2026 £m	2025 Restated £m	2026 £m	2025 Restated £m
Deferred tax assets		(1.4)	(1.9)	–	–
Deferred tax liabilities		785.7	711.7	783.1	708.9
At 31 March 2026		**784.3**	**709.8**	**783.1**	**708.9**

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 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. The results of which will be available during 2026/27 and any associated deferred tax impacts will be reflected in the March 2027 financial statements.

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 £213.8m (2025: £193.8m) 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 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
Charged to the income statement	4.8	12.5	17.3
Utilised during the year	(7.2)	0.1	(7.1)
At 31 March 2026	**15.4**	**13.7**	**29.1**
Company			
At 1 April 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
Charged to the income statement	9.7	13.0	22.7
Utilised during the year	(12.4)	0.1	(12.3)
At 31 March 2026	**20.4**	**13.4**	**33.8**

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Analysis of total provisions				
Current	22.5	11.2	25.4	14.1
Non-current	6.6	7.7	8.4	9.3
	29.1	**18.9**	**33.8**	**23.4**

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 2026 and 2027.

The charge to other provisions in the year relates to obligations arising from the change in pensionable pay definition. It is expected that the provision will be utilised over the next 2 years.

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18 Other loans and borrowings

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Current				
Obligations under finance leases – PFI	20.1	21.3	20.1	21.3
Obligations under finance leases – Other	3.9	3.4	3.5	2.9
	24.0	**24.7**	**23.6**	**24.2**
Non-current				
Obligations under finance leases – PFI	88.7	108.8	88.7	108.8
Obligations under finance leases – Other	18.0	16.3	14.4	12.2
	106.7	**125.1**	**103.1**	**121.0**
Total				
Obligations under finance leases – PFI	108.8	130.1	108.8	130.1
Obligations under finance leases – Other	21.9	19.7	17.9	15.1
	130.7	**149.8**	**126.7**	**145.2**

(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	
	2026 £m	2025 £m	2026 £m	2025 £m
Amounts payable:				
Within one year	26.5	29.0	20.1	21.3
Between one and 5 years	78.5	93.0	70.9	84.6
After 5 years	30.0	42.0	17.8	24.2
Present value of minimum lease payments including finance charges	135.0	164.0		
Less future finance charges	(26.2)	(33.9)		
Present value of minimum lease payments	108.8	130.1	108.8	130.1

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 wastewater and sludge treatment and disposal services to Scottish Water. Daldowie and Dalmuir PFI sites will be absorbed into the regulated activities of Scottish Water in the upcoming year.

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 wastewater 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 wastewater 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 wastewater. 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 wastewater.

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 wastewater 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 wastewater 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	
	2026 £m	2025 £m	2026 £m	2025 £m
Within one year	4.7	3.7	4.1	3.2
Between one and five years	10.2	7.6	7.7	6.4
Over five years	19.0	20.5	17.3	17.7
Total undiscounted lease liabilities	33.9	31.8	29.1	27.3
Lease liabilities included in the statement of financial position at 31 March	21.9	19.7	17.9	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 statement of comprehensive income.

		Group		Company	
	Note	2026 £m	2025 £m	2026 £m	2025 £m
Finance costs		0.8	0.8	0.6	0.6
Depreciation Charges	9	4.2	3.6	3.6	3.0
		5.0	**4.4**	**4.2**	**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 leases have been classified into these categories with a total value of £138,000 and is shown by category in the table below.

	Group		Company	
	2026 £000	2025 £000	2026 £000	2025 £000
Expenses relating to short-term leases	113.0	130.0	113.0	130.0
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	25.0	24.0	24.0	24.0
	138.0	**154.0**	**137.0**	**154.0**

19 Government loans

	Group and Company	
	2026 £m	2025 £m
Government loans	5,044.4	4,874.4

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	142.6	149.0	452.2	514.2	3,533.7	4,791.7
National Loans Fund	35.0	35.0	104.0	73.5	–	247.5
Public Works Loan Board	2.0	0.5	0.9	1.5	0.3	5.2
At 31 March 2026	**179.6**	**184.5**	**557.1**	**589.2**	**3,534.0**	**5,044.4**
At 31 March 2025	127.4	140.6	455.0	594.3	3,557.1	4,874.4

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19 Government loans (continued)

b. Fair values

The carrying amounts and fair value of the Government loans are as follows:

	Book value 2026 £m	Book value 2025 £m	Fair value 2026 £m	Fair value 2025 £m
Scottish Consolidated Fund	4,791.7	4,592.2	3,313.4	3,213.6
National Loans Fund	247.5	272.5	263.5	295.6
Public Works Loan Board	5.2	9.7	6.0	10.8
	5,044.4	**4,874.4**	**3,582.9**	**3,520.0**

20 Analysis of net debt

	Note	As at 1 April 2025 £m	Decrease in cash £m	Increase in debt £m	As at 31 March 2026 £m
Group					
Cash and cash equivalents	14	269.9	(46.3)	–	223.6
Government loans	19	(4,874.4)	–	(170.0)	(5,044.4)
Net debt		**(4,604.5)**	**(46.3)**	**(170.0)**	**(4,820.8)**
Company					
Cash and cash equivalents	14	136.4	(71.5)	–	64.9
Government loans	19	(4,874.4)	–	(170.0)	(5,044.4)
Net debt		**(4,738.0)**	**(71.5)**	**(170.0)**	**(4,979.5)**

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21 Retained earnings

	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 2024 (as previously reported)		1,740.6	126.2	1,866.8
Restatement of retained earnings in relation to retirement benefit obligations	30	(7.1)	(0.7)	(7.8)
Restated balance at 1 April 2024		1,733.5	125.5	1,859.0
Retained surplus for the year (as restated)		48.8	–	48.8
Actuarial loss net of deferred taxation (as restated)	22	–	(36.2)	(36.2)
At 31 March 2025 (as restated)		**1,782.3**	**89.3**	**1,871.6**
Retained surplus for the year		131.4	–	131.4
Actuarial gain net of deferred taxation	22	–	23.0	23.0
At 31 March 2026		**1,913.7**	**112.3**	**2,026.0**
Company				
At 1 April 2024 (as previously reported)		1,561.5	120.3	1,681.8
Restatement of retained earnings in relation to retirement benefit obligations	30	(7.0)	(0.8)	(7.8)
Restated balance at 1 April 2024		1,554.5	119.5	1,674.0
Retained surplus for the year (as restated)		33.7	–	33.7
Actuarial loss net of deferred taxation (as restated)	22	–	(36.8)	(36.8)
At 31 March 2025 (as restated)		**1,588.2**	**82.7**	**1,670.9**
Retained surplus for the year		113.4	–	113.4
Actuarial gain net of deferred taxation	22	–	22.6	22.6
At 31 March 2026		**1,701.6**	**105.3**	**1,806.9**

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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% (2025: 14.3%), 17.6% (2025: 17.6%) and 10.2% (2025: 10.2%) 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 2026 by a qualified independent actuary, to take account of the requirements of IAS 19.

The major assumptions used by the actuaries were:

	2026 %	2025 %
Long-term rate of increase in pensionable salaries	4.00	3.75
Rate of increase in pensions payment	3.00	2.75
Discount rate	6.25	5.80
CPI inflation rate	3.00	2.75
Actual asset returns for period from 1 April 2025 to 31 March 2026		
North East Scotland Pension Fund	6.34%	
Lothian Pension Fund	9.00%	
Strathclyde Pension Fund	9.20%	

The weighted average duration of the funded defined benefit obligation for scheme members is 17.6 years (2025: 17.6 years)

The mortality assumptions used to calculate the scheme liabilities as at 31 March 2026 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 2026			
Male	21.2	20.9	20.4
Female	23.4	23.3	22.3
Retiring at 31 March 2046			
Male	22.6	22.3	21.4
Female	25.1	25.4	25.0

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22 Pensions (continued)

The sensitivities regarding the principal assumptions used to measure the liability in the Funds for the Group are:

Assumption	Change in assumption	Approximate Impact on IAS 19 liabilities %	Approximate Impact on IAS 19 asset £m
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. 1.72%	Increase/decrease by c. £26m
CPI Inflation rate	+/- 0.1% per annum	Increase/decrease by c. 1.42%	Decrease/increase by c. £22m
Longevity	Increase life expectancy by 1 year	Increase by c. 3.00%	Decrease by c. £45m

Scottish Water's share of the assets in the schemes and the expected rate of return were:

		Group			Company		
		2026	2025 Restated	2025 As previously reported	2026	2025 Restated	2025 As previously reported
	Note	£m	£m	£m	£m	£m	£m
Total fair value of assets		2,519.5	2,377.8	2,377.8	2,458.0	2,322.0	2,322.0
Present value of funded liabilities		(1,414.0)	(1,403.3)	(1,292.9)	(1,380.1)	(1,370.5)	(1,264.3)
Gross pension asset		**1,105.5**	**974.5**	**1,084.9**	**1,077.9**	**951.5**	**1,057.7**
Adjustment in respect of asset not recognised		(1,105.5)	(974.5)	(1,084.9)	(1,077.9)	(951.5)	(1,057.7)
Funded pension asset recognised		–	–	–	–	–	–
Related deferred tax liability	16	–	–	–	–	–	–
Net funded pension asset		–	–	–	–	–	–
Unfunded pension liability		**(77.6)**	**(79.1)**	**(68.4)**	**(77.6)**	**(79.1)**	**(68.4)**
Related deferred tax liability	16	19.4	19.8	17.1	19.4	19.8	17.1
Net unfunded pension liability		(58.2)	(59.3)	(51.3)	(58.2)	(59.3)	(51.3)

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.

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22 Pensions (continued)

Reconciliation of opening and closing retirement benefit liabilities and assets

		Group			Company		
		2026	2025 Restated	2025 As previously reported	2026	2025 Restated	2025 As previously reported
	Note	£m	£m	£m	£m	£m	£m
Movements in liabilities during the year:							
Opening value of total liabilities		(1,482.4)	(1,571.8)	(1,571.8)	(1,449.6)	(1,536.5)	(1,536.5)
Prior period adjustment	30	–	(121.3)	–	–	(116.6)	–
Restated opening value of liabilities		(1,482.4)	(1,693.1)	(1,571.8)	(1,449.6)	(1,653.1)	(1,536.5)
Total service cost	5	(24.8)	(33.1)	(31.4)	(24.3)	(32.4)	(30.8)
Interest on pension scheme liabilities	7	(86.0)	(81.3)	(74.6)	(84.1)	(79.4)	(72.9)
Contributions by members		(14.3)	(12.7)	(12.7)	(14.0)	(12.5)	(12.5)
Actuarial gain		36.7	256.5	247.9	35.7	246.9	239.1
Benefits paid		73.2	75.1	75.1	72.6	74.7	74.7
Unfunded benefits paid		6.0	6.2	6.2	6.0	6.2	6.2
Closing value of total liabilities		**(1,491.6)**	**(1,482.4)**	**(1,361.3)**	**(1,457.7)**	**(1,449.6)**	**(1,332.7)**
Movements in assets during the year:							
Opening fair value of total assets		2,377.8	2,335.2	2,335.2	2,322.0	2,281.4	2,281.4
Interest on pension scheme assets	7	79.5	78.4	73.0	77.8	76.7	71.3
Contributions by the members		14.3	12.7	12.7	14.0	12.5	12.5
Contributions by the employer[15]		0.3	30.0	30.0	0.1	29.8	29.8
Contributions in respect of unfunded benefits		1.8	6.4	6.4	1.8	6.4	6.4
Actuarial gain		125.0	(3.6)	1.8	120.9	(3.9)	1.5
Benefits paid		(73.2)	(75.1)	(75.1)	(72.6)	(74.7)	(74.7)
Unfunded benefits paid		(6.0)	(6.2)	(6.2)	(6.0)	(6.2)	(6.2)
Closing fair value of assets		**2,519.5**	**2,377.8**	**2,377.8**	**2,458.0**	**2,322.0**	**2,322.0**
Gross surplus in the schemes at 31 March		**1,027.9**	**895.4**	**1,016.5**	**1,000.3**	**872.4**	**989.3**
Adjustment in respect of asset not recognised		(1,105.5)	(974.5)	(1,084.9)	(1,077.9)	(951.5)	(1,057.7)
Recognised gross deficit in the schemes at 31 March		**(77.6)**	**(79.1)**	**(68.4)**	**(77.6)**	**(79.1)**	**(68.4)**
Being:							
Funded pension asset recognised		–	–	–	–	–	–
Unfunded pension liability		(77.6)	(79.1)	(68.4)	(77.6)	(79.1)	(68.4)
Net pension deficit		**(77.6)**	**(79.1)**	**(68.4)**	**(77.6)**	**(79.1)**	**(68.4)**

[15]Company contributions by the Employer of £29.8m in respect of financial year 2025/26 were prepaid to the pension funds in March 2025.

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22 Pensions (continued)

The Company prepaid approximately £29m in March 2025 in respect of 2025/26 employer contributions. No equivalent prepayment was made in March 2026 for 2026/27. From 2026/27, employer contributions will be paid monthly as they fall due. These timing changes explain the apparent reduction in employer contributions paid in the year ended 31 March 2026 compared to the prior year.

During 2025/26, Scottish Water Group reviewed how pensionable pay is defined to align with regulations set out by the Scottish Local Government Pension Scheme. The review concluded that annual outperformance incentive payments, both past and future, will now count towards pensionable pay.

As a result of this change the closing value of total liabilities at 31 March 2026 has increased by £122m for the Group and £117.7m for the Company. For the Group this has been allocated across the funded liability and the unfunded liability as £111.5m and £10.5m respectively. For the Company this has been allocated across the funded liability and the unfunded liability as £107.2 million and £10.5 million respectively.

As this change applies to payments in prior periods and represents a material increase in the defined benefit obligation, the opening value of liabilities in the prior year has been restated with an estimated adjustment of £121.3m. This has been allocated across the funded liability and the unfunded liability as £110.9m and £10.4m respectively.

Refer to Note 30 for further information on the prior year restatement.

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.

		Group			Company		
		2026	2025 Restated	2025 As previously reported	2026	2025 Restated	2025 As previously reported
	Note	£m	£m	£m	£m	£m	£m
Actual return on pension scheme assets		204.5	74.8	74.8	198.7	72.8	72.8
Actuarial (loss)/gain in other comprehensive income in the consolidated statement of comprehensive income							
Variance between pension fund actuarial assumptions and actual experience		161.7	252.9	249.7	156.6	243.0	240.6
Adjustment in respect of asset not recognised		(131.0)	(301.2)	(300.7)	(126.4)	(292.0)	(292.0)
Gross actuarial (loss)/gain recognised in the pension fund		30.7	(48.3)	(51.0)	30.2	(49.0)	(51.4)
Deferred tax movement	16	(7.7)	12.1	12.8	(7.6)	12.2	12.9
Net actuarial (loss)/gain recognised in other comprehensive income in the consolidated statement of comprehensive income	21	**23.0**	**(36.2)**	**(38.2)**	**22.6**	**(36.8)**	**(38.5)**

Amounts recognised in the consolidated income statement

		Group			Company		
		2026	2025 Restated	2025 As previously reported	2026	2025 Restated	2025 As previously reported
	Note	£m	£m	£m	£m	£m	£m
Total service cost	5	24.8	33.1	31.4	24.3	32.4	30.8
Interest cost on pension scheme net liabilities	7	6.5	2.9	1.6	6.3	2.7	1.6
		31.3	36.0	33.0	30.6	35.1	32.4

The unpaid contributions at the year end included in provisions for liabilities (note 17) was £13 million (2025: £0 million). It is estimated that Scottish Water will make contributions of £44.6 million to the pension funds in financial year 2026/27.

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22 Pensions (continued)

History of experienced gains and losses

	2026 £m	2025 Restated £m	2025 As previously reported £m
Group			
Difference between the expected and actual return on scheme assets:			
Amount reflecting the gain on investment performance	125.0	(3.6)	1.8
Amount reflecting experience gains on scheme assets	–	–	–
Fair value of assets	2,519.5	2,377.8	2,377.8
Experience losses on scheme liabilities:			
Amount	(13.5)	15.5	14.2
Present value of liabilities	1,491.6	1,482.4	1,361.3
Changes in demographic assumptions underlying the present value of scheme liabilities:			
Amount	(16.9)	3.5	3.4
Changes in financial assumptions underlying the present value of scheme liabilities:			
Amount	67.1	237.5	230.3
Adjustment in respect of asset not recognised	(131.0)	(301.2)	(300.7)
Total variance between pension fund actuarial assumptions and actual experience	**30.7**	**(48.3)**	**(51.0)**
Gross surplus in the schemes at 31 March	1,027.9	895.4	1,016.5
Adjustment in respect of asset not recognised	(1,105.5)	(974.5)	(1,084.9)
Recognised gross deficit in the schemes at 31 March	**(77.6)**	**(79.1)**	**(68.4)**
Being:			
Funded pension asset recognised	–	–	–
Unfunded pension liability	(77.6)	(79.1)	(68.4)
	(77.6)	**(79.1)**	**(68.4)**

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22 Pensions (continued)

	2026 £m	2025 Restated £m	2025 As previously reported £m
Company			
Difference between the expected and actual return on scheme assets:			
Amount reflecting the gain on investment performance	120.9	(3.9)	1.5
Amount reflecting experience gains on scheme assets	–	–	–
Fair value of assets	2,458.0	2,322.0	2,322.0
Experience losses on scheme liabilities:			
Amount	(13.4)	14.3	13.8
Present value of liabilities	1,457.7	1,449.6	1,332.7
Changes in demographic assumptions underlying the present value of scheme liabilities:			
Amount	(16.6)	3.5	3.4
Changes in financial assumptions underlying the present value of scheme liabilities:			
Amount	65.7	229.1	221.9
Adjustment in respect of asset not recognised	(126.4)	(292.0)	(292.0)
Total variance between pension fund actuarial assumptions and actual experience	**30.2**	**(49.0)**	**(51.4)**
Gross surplus in the schemes at 31 March	1,000.3	872.4	989.3
Effect of asset limit	(1,077.9)	(951.5)	(1,057.7)
Recognised gross deficit in the schemes at 31 March	**(77.6)**	**(79.1)**	**(68.4)**
Being:			
Funded pension asset recognised	–	–	–
Unfunded pension liability	(77.6)	(79.1)	(68.4)
	(77.6)	**(79.1)**	**(68.4)**

An actuarial gain of £161.7 million has been calculated resulting in a funded pension asset of £1,105.5 million at 31 March 2026 and an unfunded liability of £77.6 million. The pension asset is as a result of a higher discount rate, and higher asset returns offset by higher expectation of long term CPI growth than forecast at 31 March 2025.

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 £1,105.5 million is not recognised but is restricted by £1,105.5 million to a funded pension asset of £0 million with an actuarial gain of £161.7 million.

In addition an unfunded liability of £77.6 million is recognised as a non current liability.

23 Commitments

Capital commitments

Scottish Water has contracted capital commitments of £650.5 million (2025: £787.5 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.

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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.

Subsidiaries
During the year Scottish Water entered into the following transactions with its subsidiaries (note 11):

	2026 £m	2025 £m
Wholesale water and wastewater services to Business Stream	230.3	217.9
Sale of wastewater services to other subsidiaries	0.6	0.7
Purchase of wastewater services from other subsidiaries	(0.9)	(1.3)
Seconded staff costs charged to subsidiaries	7.2	7.4
Other operating costs charged to subsidiaries	1.4	1.5
Purchase of renewable development and vesting services	(1.5)	(2.3)

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 123 to 138. Scottish Water's Non-executive Members hold additional roles within other organisations (see Members on pages 107 to 109).

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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 24 to 105 and Corporate Governance report on pages 110 to 114.

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.

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.

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26 Financial instruments and risks (continued)

The trade receivables total includes an allowance for impairment. Trade receivables comprise receivables from business customers and receivables from domestic household customers.

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Trade receivables:				
Trade receivables	801.4	765.8	616.4	582.5
Less provision for impairment of trade receivables	(543.7)	(533.4)	(500.1)	(488.5)
Net trade receivables	257.7	232.4	116.3	94.0
The following table shows the development of the provision for impairment of trade receivables:				
Balance at 1 April	533.4	521.0	488.5	477.4
Charge for the year	37.0	36.5	19.0	19.0
Amounts written down during the year	(26.7)	(24.1)	(7.4)	(7.9)
Balance at 31 March	543.7	533.4	500.1	488.5
Trade receivables is analysed between:				
Household receivables	600.7	559.3	600.7	559.3
Less provision for impairment	(497.2)	(485.5)	(497.2)	(485.5)
Net household receivables	103.5	73.8	103.5	73.8
Business customer receivables	200.7	206.5	15.7	23.2
Less provision for impairment	(46.5)	(47.9)	(2.9)	(3.0)
Net business customer receivables	154.2	158.6	12.8	20.2

Household water and wastewater 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 management's assessment of expected future collections. The key assumption in determining the provision is the forecast overall collection rate applied to outstanding household water and wastewater debt balances. This assessment is based primarily on historical collection performance, recent collection trends and management's consideration of current and expected economic conditions.

Household water and wastewater 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 2026 trade receivables in respect of household customers totalled £600.7 million with a provision of £497.2 million (2025: £559.3 million and £485.5 million respectively).

The forecast overall collection rate applied at 31 March 2026 was 97.05% (2025: 96.96%). Actual collections relating to charges raised between 1996/97 and 2019/20 currently amount to approximately 97.0% of amounts billed and continue to increase as historic debts are recovered. Since 2008, the forecast overall collection rate has increased by an average of approximately 0.08 percentage points per annum, reflecting the long-term trend in collection performance.

Management has therefore assessed that a movement of 0.05 percentage points in the forecast overall collection rate represents a reasonably possible change in the key assumption. Such a movement would reduce the forecast collection rate to approximately 97.0%, broadly in line with the level of long-term collections experienced to date. A decrease/increase of 0.05 percentage points in the forecast overall collection rate would increase/decrease the annual bad debt charge by approximately £10.7 million. Actual collection performance could differ from management's estimates due to changes in economic conditions, household affordability pressures, collection activity undertaken by Councils or other factors affecting customers' ability to pay. Management believes the provision held at 31 March 2026 represents an appropriate estimate of expected credit losses based on information available at the reporting date

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26 Financial instruments and risks (continued)

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. £10.7m
In-year household bad debt provision charge	+/- 0.10%	Increase/decrease by c. £1.3m

As at 31 March 2026 trade receivables from business customers totalled £200.7 million (2025: £206.5 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	200.7	56.0	55.9	46.8	42.0
Provision	(46.5)	(0.2)	(3.9)	(10.6)	(31.8)
Net trade receivable as at 31 March 2026	**154.2**	**55.8**	**52.0**	**36.2**	**10.2**
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

	Total £m	Current £m	< 3 months overdue £m	3-12 months overdue £m	> 12 months overdue £m
Company					
Gross receivable	15.7	11.8	0.3	1.3	2.3
Provision	(2.9)	–	–	(0.7)	(2.2)
Net trade receivable as at 31 March 2026	**12.8**	**11.8**	**0.3**	**0.6**	**0.1**
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

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.

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29 Events after the reporting period

Following the reporting date, the Daldowie Private Finance Initiative (PFI) contract expired on 1 April 2026 and the Dalmuir Private Finance Initiative (PFI) contract expired on 14 June 2026, with ownership and operational responsibility for the Daldowie Sludge Treatment Centre and Dalmuir Wastewater Treatment Works transferring to Scottish Water. The financial impact of these transitions will be reflected in the 2026/27 financial statements. Scottish Water acts as the client body to the remaining 5 private sector consortia that provide wastewater and sludge treatment and disposal services.

30 Prior period adjustment

During the year ended 31 March 2026, the Group identified that they had not been determining pensionable pay in accordance with the regulations set out by the Scottish Local Government Pension Scheme. AOIP payments, both past and future should have been included in pensionable pay. This has been corrected retrospectively in accorance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

As a result of this change, we have reassessed the associated benefits due to pension scheme members resulting in an increase in the prior year opening reported defined benefit obligation for the Group of £121.3m and Company of £116.6m. This is an estimated amount, with the full detailed calculation expected to complete in 2027. As described in note 22, the additional defined benefit obligation resulted in an increased asset ceiling adjustment of £110.9m. The net prior year opening pension deficit has therefore increased by £10.4m in respect of the unfunded scheme.

Scottish Water is working closely with advisors and the three local government pension schemes to undertake the detailed calculations in respect of individual members and conclude on the treatment of missed contributions. All three funds are in a significant surplus position, after taking account of the increased defined benefit obligations.

However, this is a material increase in the defined benefit obligation and as such the prior year results have been restated to show the corrected treatment. Accordingly, the group income statement, the statement of comprehensive income, and the group and company statement of changes in equity, as well as the statement of financial position and cash flow statements for the year ended 31 March 2025 have been restated accordingly. A summary of the restatements at 1 April 2024 and for the year ended 31 March 2025 are detailed below.

		Group			Company		
	Note	As previously reported £m	Adjustments £m	Restated £m	As previously reported £m	Adjustments £m	Restated £m
Balance sheet							
At 1 April 2024							
Trade and other payables		(104.7)	–	(104.7)	(81.8)	–	(81.8)
Other loans and borrowings		(130.0)	–	(130.0)	(130.0)	–	(130.0)
Retirement benefit obligations		(76.4)	(10.4)	(86.8)	(76.4)	(10.4)	(86.8)
Deferred tax liabilities		(688.9)	2.6	(686.3)	(686.6)	2.6	(684.0)
Provisions for liabilities		(8.0)	–	(8.0)	(10.6)	–	(10.6)
Total non-current liabilities		(1,008.0)	(7.8)	(1,015.8)	(985.4)	(7.8)	(993.2)
Net assets		6,704.6	(7.8)	6,696.8	6,519.6	(7.8)	6,511.8
Retained earnings	21	1,866.8	(7.8)	1,859.0	1,681.8	(7.8)	1,674.0
At 31 March 2025							
Trade and other payables		(109.7)	–	(109.7)	(83.0)	–	(83.0)
Other loans and borrowings		(125.1)	–	(125.1)	(121.0)	–	(121.0)
Retirement benefit obligations		(68.4)	(10.7)	(79.1)	(68.4)	(10.7)	(79.1)
Deferred tax liabilities	16	(714.4)	2.6	(711.7)	(711.6)	2.7	(708.9)
Provisions for liabilities		(7.7)	–	(7.7)	(9.3)	–	(9.3)
Total non-current liabilities		(1,025.3)	(8.1)	(1,033.3)	(993.3)	(8.0)	(1,001.3)
Net assets		6,887.5	(8.1)	6,879.4	6,686.7	(8.0)	6,678.7
Retained earnings	21	1,879.7	(8.1)	1,871.6	1,678.9	(8.0)	1,670.9

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2026

30 Prior period adjustment (continued)

Consolidated statement of comprehensive income

	Group			Company		
	As previously reported £m	Adjustments £m	Restated £m	As previously reported £m	Adjustments £m	Restated £m
For the year ended 31 March 2025						
Cost of sales	(1,677.3)	(0.9)	(1,678.2)	(1,250.1)	(0.8)	(1,250.9)
Gross surplus	**409.4**	**(0.9)**	**408.5**	**329.4**	**(0.8)**	**328.6**
Administrative expenses	(176.4)	(0.9)	(177.3)	(113.9)	(0.9)	(114.8)
Operating surplus	**233.0**	**(1.8)**	**231.2**	**215.5**	**(1.7)**	**213.8**
Finance costs	(162.9)	(1.3)	(164.2)	(164.7)	(1.0)	(165.7)
Surplus before taxation	**84.5**	**(3.1)**	**81.4**	**61.9**	**(2.7)**	**59.2**
Taxation	(33.4)	0.8	(32.6)	(26.3)	0.8	(25.5)
Surplus of the year	**51.1**	**(2.3)**	**48.8**	**35.6**	**(1.9)**	**33.7**
Other comprehensive income	(38.2)	2.0	(36.2)	(38.5)	1.7	(36.8)
Total comprehensive income /(loss) for the year	**12.9**	**(0.3)**	**12.6**	**(2.9)**	**(0.2)**	**(3.1)**

Consolidated statement of cash flow

The table below sets out the cash flow statement line items affected by the prior period adjustments. All adjustments below are presentational in nature with no cash impact arising from the adjustment. All other line items remain unchanged.

	Group			Company		
	As previously reported £m	Adjustments £m	Restated £m	As previously reported £m	Adjustments £m	Restated £m
For the year ended 31 March 2025						
Surplus before taxation	84.5	(3.1)	81.4	61.9	(2.7)	59.2
Non cash adjustment for retirement benefit obligations	(1.4)	1.8	0.4	(1.7)	1.7	–
Finance costs - net	148.5	1.3	149.8	153.6	1.0	154.6

ANNUAL REPORT & ACCOUNTS 2025/26 PERFORMANCE AND PROSPECTS

DIRECTION BY THE SCOTTISH MINISTERS
IN ACCORDANCE WITH SECTION 45(2) OF THE WATER INDUSTRY (SCOTLAND) ACT 2002

Under the Scottish Water Governance Directions 2023, 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	Eela Water Treatment works Peterhead Newfield DMA Enterprise Asset Management Perth Water Infrastructure Glenfarg Water Treatment Works Upgrade	£26,385,630 £19,282,748 £17,135,390 £15,989,373 £11,391,026
Purchase of individual capital items, including land, with a life of more than one year	£1 million	Business Stream Customer Relationship Management System	£ 2,637,256
Advertising	£1 million	None	–
Sponsorship	£10,000	Scottish Amateur Swimming Association	£250,000
Gifts	£200	None	–

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Scottish Water

Trusted to serve Scotland

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