2024 INTERIM REPORT AND ACCOUNTS: PERFORMANCE AND PROSPECTS

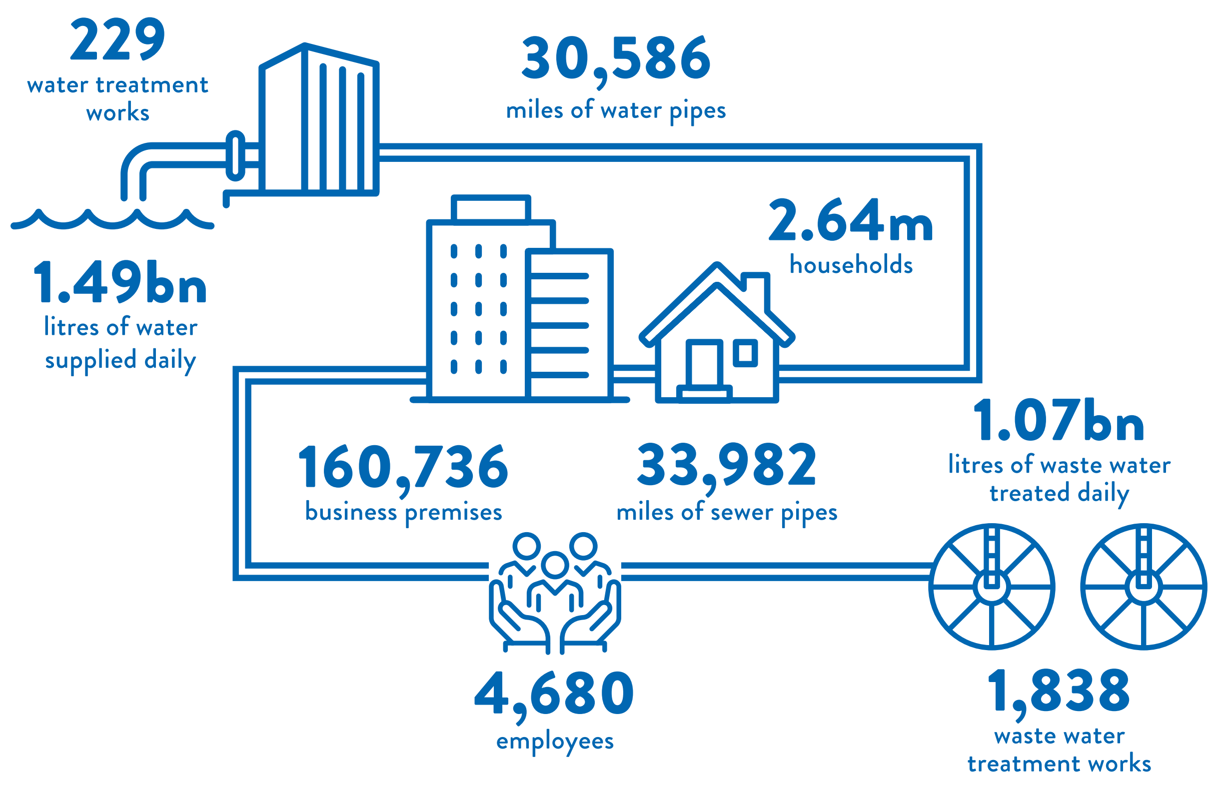
FOR THE SIX MONTHS TO SEPTEMBER 2024

Scottish Water

Trusted to serve Scotland

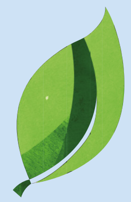
CONTENTS

VITAL ROLE



Our Strategic Ambitions

Our Strategic Plan is ultimately designed to help us meet our three strategic ambitions. Meeting our ambitions will mean that we're doing the right thing, at the right time to help Scotland flourish and help us meet our Purpose.

		
Service Excellence Adapting to a challenging climate, dealing with our ageing assets and meeting customers' evolving expectations.	**Great Value & Financial Sustainability** Customers will receive great value, now and in the future, and we will be financially sustainable.	**Going Beyond Net Zero** Showing leadership in mitigating climate change and enhancing Scotland's natural environment.
We support a flourishing Scotland by providing a reliable supply of high quality, great tasting drinking water, safely collecting, treating and recycling waste water, enabling sustainable and inclusive economic growth and empowering customers and communities.	We will support a flourishing Scotland by ensuring that our services are affordable for customers while we are financially sustainable and support a prosperous economy.	We will support a flourishing Scotland by going beyond net zero emissions, embracing the circular economy and enhancing Scotland's natural environment.
• Delivering consistently excellent water • Transforming waste water services • Enabling sustainable and inclusive growth • Empowering customers and communities	• Keeping services affordable • Making smarter investment choices • Transforming how we work	• Transforming our emissions • Embracing the circular economy • Enhancing the natural environment

SCOTTISH WATER BOARD MEMBERS AND ADVISORS

Executive Members

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

Non-Executive Members

Deirdre Michie, OBE, Chair
Graham Dalton
Steve Dickson
Iain Lanaghan
Ian McAulay
Ken Marnoch
Catriona Schmolke, CBE

Independent Auditors

KPMG LLP
Chartered Accountants
1 St Peter's Square,
Manchester,
M2 3AE

Business Model

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

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

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FINANCIAL SUMMARY

	Company		Group	
Revenue	**£791m** (Sept 2023: £723m)	↑ £68m or 9%	**£1,043m** (Sept 2023: £973m)	↑ £70m or 7%
Surplus before tax	**£49m** (Sept 2023: £62m)	↓ £13m or 21%	**£60m** (Sept 2023: £72m)	↓ £12m or 17%
Capital Additions	**£379m** (Sept 2023: £360m)	↑ £19m or 5%	**£381m** (Sept 2023: £363m)	↑ £18m or 5%
Cash	**£100m** (Mar 2024: £280m)	↓ £180m or 64%	**£183m** (Mar 2024: £362m)	↓ £179m or 49%

CHAIR'S STATEMENT
DEIRDRE MICHIE OBE


Deirdre Michie

Scottish Water is a publicly-owned, independently regulated and commercially run organisation. As such I am determined the Board is as informed as possible, transparent in our decision-making and ultimately accountable to the people of Scotland. To this end, we have stepped up our efforts to get out and about, holding meetings and paying visits to a number of our sites across the country. Such an approach gives us a great opportunity to see and hear first hand the issues and challenges that our people, customers and stakeholders are dealing with. It also helps us to really appreciate the positive activities and contribution that Scottish Water continues to deliver 24/7.

The changing and challenging economic and environmental backdrop means we are all on a constant learning journey. It's great that the words 'trust', 'pride' and 'caring' are often used to describe how people think of Scottish Water and the way we work.

However, while our drinking water remains of the highest quality and is much appreciated, there are concerns and questions about waste water and the extent to which it can negatively impact the quality of our rivers and seas. We also know that issues relating to flooding can be incredibly frustrating and challenging for some of our customers as well.

Like any Board we face tough decisions and we are rightly held to account for our actions and for every pound we spend. This is at a time when Scottish Water's job is only getting tougher: the climate is changing, Scotland's population is growing and shifting and our assets are ageing. We must be smart in our prioritisation, and we have to sometimes make trade-offs that reflect what matters most to our customers, while continuing to protect the environment. Additionally we must keep an eye on ensuring our decisions are also fair to future generations. As we progress through the current regulatory period we're already shaping our thinking for the next Strategic Review of Charges (SR27), which will cover 2027 to 2033. In doing so we are also taking the opportunity to look even further ahead with a refresh of our Long-Term Strategy, covering the next 25 years.

It is clear to me the scale of the challenge, particularly in relation to climate change adaptation, means we need to "work differently" not just "harder". We know our services are not only essential to customers but also key to economic growth, sustainable housing delivery and environmental quality. So we need to dial up bold, collaborative and innovative approaches, working with customers, businesses and stakeholders. We can help people make good choices that both reduce water use and the impact on the environment, whilst also delivering the investment we need to keep ahead of the climate change adaptation curve. Our Long-Term Strategy will be designed to set out the pathways needed to enable these changes, facing into the significant challenges ahead.

The outcome of SR27 will be critical to our future success and our regulators rightly expect us to provide high-quality evidence to support the proposals we will put forward. When we move into public consultation in the new year, we look forward to sharing our ideas and gathering vital feedback from customers on these important issues.

We know that to really drive the investment and changes needed we need a joined-up "Team Scotland" approach. The Board is committed to supporting our Chief Executive, Alex Plant, and his senior leadership team who are working with key stakeholders more closely than ever to ensure we work together to drive real and lasting changes to the water sector in Scotland. Effective co-operation and partnership between Scottish Water and our customers and communities, Government, Local Authorities, campaign groups, developers, farmers, regulators and others is key. As a Board we are committed to playing our part to work collaboratively and helping others to do the same. Our transformation programme is already helping deliver efficiencies which are speeding up repairs, reducing emissions, delivering capital projects faster than ever and reducing costs.

We never forget that most of the money we are trusted to spend comes from our customers. I am determined the Board maintains a firm focus on ensuring our objectives match customer expectations and that the performance of Scottish Water consistently delivers against them. And I have every confidence we will continue to do so.

Deirdre Michie
December 2024

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

CHIEF EXECUTIVE'S STATEMENT
ALEX PLANT


Alex Plant

We have made a very good start to the year, improving performance in key areas such as leakage and environmental performance and stepping up the delivery of our investment programme. And whilst the sector faces challenges, our model in Scotland is working well, delivering good outcomes for customers and the environment, maintaining service quality today, and building a viable platform for the future.

I am also delighted to see success in delivering more sustainable and cost-effective solutions across both our water and waste water networks. We recently opened our brand new Winchburgh Waste Water Treatment Works, which is enabling the delivery of much needed new homes in the area. This £35 million investment deploys state-of-the-art technology, and was built using offsite manufacturing and digital twin approaches. All of this has allowed us to complete the new works more swiftly, at far lower cost, with less land take. The way the works operates also means we need to use fewer chemicals and overall the project has significantly reduced both embedded and operational carbon compared to traditional solutions.

And in September, we completed a £60 million refurbishment at Invercannie Water Treatment Works, first opened by Queen Victoria in 1866. The refurbishment equips Invercannie with the resilience to deal with more challenging raw water quality, a consequence of our changed climate, and will enable it to supply the needs of the people and businesses of Deeside for many years to come.

Both are blueprints for future projects, showing how we can deliver essential services in different ways to meet the challenges of population growth and climate change whilst still progressing our net zero ambitions.

Another major and hugely exciting milestone was receiving permissions to begin work on reforestation of Loch Katrine – along with partner organisations including Forestry and Land Scotland and Loch Lomond and Trossachs National Park. This will protect water supplies, improve biodiversity and capture carbon emissions. Together we will create one of the biggest new woodlands in Europe – on land the equivalent of 6,440 football pitches – through re-wilding and natural regeneration.

We also delivered a groundbreaking project to harness hydropower from waste water at our works in Hamilton, the first of its kind in the UK. The new hydro turbine there is set to cut carbon emissions by 64 tonnes each year – the same amount as a passenger jet flying from Glasgow to Sydney 13 times.

These are just some of many great examples of how innovation and transformation is keeping us on track to meet our ambition – as outlined in our updated **Net Zero Emissions Routemap** – to be net zero by 2040.

I had the honour of representing Scottish Water at the International Water Association's (IWA) Congress held in Toronto in August. Industry colleagues from around the world shared insights into how breakthroughs in science, technological innovation and new approaches are helping transform water and waste water management. We are part of that story given our wide range of work, research and innovation – especially in relation to climate change adaptation and using nature-based solutions. That work carried out here in Scotland and in the UK more widely is being noticed, commended and copied by peers worldwide. And we have the chance to showcase all of this in Glasgow in 2026, where we will host the next IWA Congress.


Alex Plant at Aberdeen Science Centre

I know our customers have high expectations of us, including high-quality drinking water, first-class customer service and the protection and enhancement of the natural environment. We also know that they need us to do this efficiently so that we can keep bills as low as possible. At this mid-year point we are in the green in most of our performance areas, helped by more benign weather than in recent years. We didn't have prolonged periods of dry and warm weather or new record temperatures. And rainfall was recorded at 'average level', which reduced flood risk.

But we know and are prepared for the colder winter months and the general increased likelihood of storms and extreme weather which affects our assets, many of which were not designed to cope with today's weather and which are ageing and coming to the end of their intended lifespan. As we had forecast, repair costs continue to rise – compared with the same six month period last year, we have already seen a 15% increase, up from £139 million to £161 million.

Our revenue in the regulated business increased by £68 million (9%) to £790 million as our charges recovered some ground lost over recent years when we kept charges lower to protect our customers during Covid-19 and the cost of living crisis but which still remain below CPI inflation. However, our surplus before tax decreased by £13 million to £49 million as the increase in revenue was offset by higher repair costs, increased depreciation and the prior year one-off benefit of a rates rebate. Our capital expenditure increased by 5%, to £379 million, as our investment programme continued to build momentum. This was achieved through the planned use of £180 million of our cash reserve. Maintaining cash balances is required to support a business the size of Scottish Water.

However, sustained investment to replace assets that are at or beyond the end of their useful lives will be vital to ensuring we can maintain service standards and create the right conditions to meet future challenges too.

So far this year we are delivering investment slightly ahead of expectation, aided by cost-effective planning and by reduced inflation rates giving us a bit more buying power. Nevertheless I remain concerned about the ongoing rise in repair and refurbishment costs, which is a symptom of the fact that we are not replacing our assets as quickly as we need to, and as a result dealing with such older assets becomes more expensive.

I am really pleased that we are adopting new techniques to trace and fix leaks more quickly and to reduce the likelihood of leaks happening in the first place. The dedicated team we have put in place to bring rates down appears to be helping us shift the dial in the right direction on leakage.

I'm determined that we end this year in our target range after an increase in 2023/24, so that we are back on track with our long-term trend of year-on-year reductions.

I am proud of the quality of the drinking water we supply and it is a source of pride across the nation too. Whilst we never rest on our laurels, quality remains among the highest in the world and we work closely with the Drinking Water Quality Regulator (DWQR) to maintain and improve this performance. I was very pleased with the findings of the independent Drinking Water Quality Regulator's annual report which described the quality of Scotland's drinking water as remaining 'among the finest in the world'. However, an area of focus this year is micro-biological performance at Treated Water Storage Points. We have seen an increasing number of challenges in meeting strict water quality standards, mostly due to the age of these assets. We are already making good progress in carrying out improvements at many of the 1,200 points we operate, having already recognised this risk as a key area.

Elsewhere, I also recognise the concerns that people rightfully have about the wider water environment, and we should all want to do what we can to increase the quality of our rivers and seas. We have made good progress in reducing Environmental Pollution Incidents by deploying increased resources, delivering planned investment, and deploying more intelligent monitors that allow us to track the performance of our assets in real time and take proactive preventative action when needed, rather than reacting after the event.

There has been news coverage about how and when Combined Sewer Overflows (CSOs) operate, and I very much welcomed the considered assessment of these issues by **Environmental Standards Scotland** (ESS) in their recent report. It's important to understand why we need CSOs. When we have heavy rain, a CSO operates – a bit like an overflow in a bath – to release water to prevent the drainage system backing up into people's homes. When used as designed, as the ESS report notes, this should not cause any environmental harm as it is so dilute, with more than 99% of what is released being rainwater, grey water and run-off from roads.

We are committed to being as transparent and accountable as possible and agree with the ESS report recommendation to increase the amount of information the public has access to around the operation of CSOs. This is a key strand of our £500 million **Improving Urban Waters Routemap**, which we launched three years ago.

I'm delighted we delivered on our commitment to install more than 1,000 CSO monitors by the end of 2024.

These have been deployed at priority locations across the country. We now aim to go beyond this by installing a further 700 by the end of 2025.These monitors are part of a growing network of assets which will help us better understand what, where and when overflows are being used.

We are set to launch our first online map showing near real-time data from these monitors by the end of December to share the information these new monitors record with the public, which responds to the ESS recommendation mentioned above. We are determined to play our part as part of the collective "Team Scotland" to work together, catchment by catchment, to further improve environmental water quality.

We are in a strong position in Scotland where 87% of waterways are rated in 'good' or 'better' ecological condition by SEPA. Now of course, we all want to move towards 100%. However even if we spent all our customers' money on this area of our operations, we could maybe nudge that up to 88.5%. This is because the other improvements would have to come from changes to other aspects that affect environmental water quality such as flows into waterbodies from agriculture, highways and industry.

We are committed to doing all we can to help improve Scotland's bathing waters, welcoming SEPAs announcement in November that the highest number on record will meet the best environmental standards in 2025. **Record number of Excellent Bathing Waters in Scotland for 2025 | Beta | SEPA | Scottish Environment Protection Agency**. Ahead of this year's official bathing water season we inspected 452 assets and found no issues with these. We carried out further reviews of asset performance during the season whenever SEPA's sampling identified elevated levels of bacteria and no issues were found with our assets. We have continued to provide temporary treatment to protect water quality at Ayr South ahead of the delivery of permanent improvements and we have also started working on upgrades to treatment at Lower Largo in Fife. We continue to work closely with SEPA to identify where we can further support bathing water performance.

As we look ahead, despite the significant headwinds facing us, I feel we are well positioned to drive performance, demonstrate efficiency, deliver our investment plans, and protect and enhance the environment. We are fortunate at Scottish Water to have customers who trust us, a government which is proud of us, regulators who want to work with us and partners who want to help us transform. This is hugely valuable, and provides the basis for us driving to be bolder, more innovative, quicker in our effective decision-making and ensuring we can make the case for the investment we will need in the future.

Our employees and partners already deliver a phenomenal service every day. As we look ahead, it is vital that we build our supply chain for the next regulatory period and beyond, and look at our ways of working, so that together we can adapt and innovate rather than just turn the handle on an existing model.

The world out there is changing fast – most clearly because of a rapidly changing climate – and so must we all. Most of our assets were not designed to cope with the extremes of weather that are now the norm. Many are ageing and need extra maintenance to remain serviceable before ultimately needing to be replaced.

We know we need to embrace new approaches that deliver lower whole-life cost, lower carbon, bring wider social and environmental benefits, and help us achieve our target of net zero emissions by 2040. More nature-based solutions will be a key part of that, and I know we will need partners who will relish working differently.

The future should be one of true partnering, not client and supplier. This means collaborating and sharing resources and knowledge, working as one team to challenge and innovate, share successes and stand shoulder to shoulder when things go wrong. This mindset is at the heart of our approach to our major SR27 procurement, which will be a key focus for us all over the coming months and I am very much looking forward to hearing the ideas that potential future partners will come forward with during that process, including how we can deliver more nature-based solutions.

It's been 18 months since I joined Scottish Water, an organisation I am hugely proud to work for. One of my priorities remains raising the profile of the vital work our teams do day in and day out and improving the level of understanding across Scotland of the critical role our services play in everyone's lives. We have a dedicated and talented workforce underpinned by a strong sense of purpose – to support a flourishing Scotland and focused on delivering our strategic ambitions of Service Excellence, Great Value & Financial Sustainabilty and Going Beyond Net Zero – which positively sets us apart.

As our latest campaign highlights, Scotland's public water services are 'Piped By Us, Owned By You'. Our teams here at Scottish Water and those who work alongside us all have our part to play. I also know that this won't – on its own – be enough. So I'm keen to make sure we all "play an owner's part" and take responsibility – to think and act differently about how we use and safeguard water, nature's most precious resource.

Alex Plant
December 2024

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SERVICE EXCELLENCE

Delivering Consistently Excellent Water Supply

Water quality compliance and supply continuity remain strong, though we continue to manage risks linked to unpredictable weather and ageing infrastructure.

We welcomed the Drinking Water Quality Regulator for Scotland's Annual Report on Drinking Water Quality in Scotland's Public Water Supplies, released in August. The report highlighted that Scotland's drinking water remains among the finest globally and recognised the dedication, diligence and expertise of our teams. Looking to the future, however, the report also emphasised the need for substantial and timely investment to ensure ongoing water quality for future customers – which we echo.

Currently, micro-biological performance at some water treatment and supply assets has the most significant impact on overall compliance. We're making steady progress with ongoing improvements and targeted investments to reduce risks and maintain the high water quality standards our customers rely on.

CASE STUDY: Engineering masterpiece gets 21st century renewal

We completed a £60 million investment to revamp Invercannie Water Treatment Works on Royal Deeside – a site first opened by Queen Victoria more than 150 years ago.

Hailed as a jewel in the crown of engineering success when it began operating in 1866 the Banchory site has been diligently serving the growing north east population ever since.

We carried out an extensive refurbishment of the existing works to increase storage, resilience and safeguard the supply to customers. Upgrades included a new water storage tank capable of holding 19 million litres of drinking water and state-of-the-art art new dissolved air filtration technology to improve water quality and improve resilience of supply.

Whilst most of the investment for the works was delivered on time, complex issues of integrating modern technology into our existing site caused some delays to the final opening of the site.

Alex Plant and Deirdre Michie at Invercannie WTW opening

The weather, as is the new norm, brought several challenges. April was the wettest month recorded in the past three years, with certain regions, especially in the east, experiencing above-average rainfall until May. This high rainfall tested the resilience of our ageing storage infrastructure, resulting in an increase in bacteriological issues at water treatment works, service reservoirs, and customer taps.

This emphasised the importance of our programme to improve the performance of our 1,200 Treated Water Storage Points (TWSPs) with 270 of the planned 500 being cleaned by the end of September and our new minor works pilot delivering small scale repairs to securing 30 tanks against ingress. Our significant remedial programme continues to progress to plan with 14 sites being refurbished and put back into service. In 2024/25 we plan to invest approximately £50 million in repairs to these assets. To date, water quality at TWSPs has improved, with 43 bacteriological failures by the end of September, down from 55 in 2023.

These conditions led to notable water quality compliance issues, particularly concerning bacteriological performance at some Water Treatment Works (WTWs). Overall compliance fell below our in-year target, with 14 failures reported by June – double the seven failures recorded in the same period in both 2022 and 2023. To further improve water quality performance we set up a cross-functional team to monitor water quality performance and make operational improvements.

Drier weather in the latter part of this period contributed to improvements in bacteriological performance, with a stabilisation in levels. This was bolstered by proactive efforts to manage our disinfection processes effectively to prevent chlorate formation and minimise halo acetic acids (HAAs) and trihalomethanes (THMs), both of which can affect water quality.

However, an unusual spike in taste and odour complaints occurred in parts of northern Scotland. Our investigations revealed that our standard testing method might be interacting with natural chemicals in the water, creating odours during testing. We are now trialling an alternative testing method.

Overall, Water Quality compliance remained strong, reaching 99.93% by September, an improvement from 99.91% at the same time last year.

On water availability, we did not experience the prolonged dry and hot conditions of recent summers. Most reservoirs remained at healthy levels, with a few exceptions in the north west and Glenfarg in Fife, where levels dropped in May. Currently, all reservoirs are at good levels.

Leakage

We are committed to reducing leakage and were disappointed to end last year with a slight rise in leakage levels rather than our ongoing year-on-year reduction. Our reported leakage value remains ahead of target after the first half of the year and we are hopeful of delivering a 10 megalitres a day (ML/d) reduction on last year, when the level was 462ML/d.

We are working hard to increase the number of leaks we are finding and fixing with teams adapting processes and trialling new ways of working. This has included starting to test a one stop 'find and fix' contractor to deliver end-to-end leakage reduction. We have also employed new acoustic logging teams to better identify areas with known leakage issues to help us locate the source of issues. We have also increased our focus on addressing leakage at customers' properties.

Prospects

We will continue to focus on key water quality risks with our teams ensuring effective operational controls are in place to enable us to take action to prevent the risk of water quality failures. We will continue to increase our use of data and analytics to help identify risks and ensure timely action is taken when needed – enabling us to continue to uphold the very high water quality standards we deliver.

We will use our winter resilience planning to prepare for the colder and wetter months ahead and build on learning from past experiences including the work we undertook during a series of storm incidents. Colder temperatures can also lead to a rise in leakage rates due to frozen pipes. We will continue to use specialist teams to monitor for leakage and, where possible, prevent incidents and respond quickly when they occur.

Transforming Waste Water Services

The collection, treatment and recycling of waste water to the environment remains under significant scrutiny at the same time as changing weather patterns puts pressure on our infrastructure. The six-month period between April and September saw more rainfall than would normally be expected, with parts of western Scotland experiencing the wettest August on record.

Our Performance

There has been a slight improvement in-year in the number of Waste Water Treatment Works which are meeting our strict licence standards with 97% out of 580 achieving compliance this year. We have also made progress in reducing Environmental Pollution incidents (EPIs) – so far this year there has been positive performance recorded. There have been 103 EPIs compared with 126 this time last year, of which two are of the more serious Category 1 or 2. We continue to look to reduce these incidents using both advances in monitoring technology and calling for a ban on wet wipes as today six out of ten EPIs – and four in every five internal flooding events – are caused by sewer blockages.

One of our newest Waste Water Treatment Works came into operation, supporting a growing community at Winchburgh. The state-of-the-art works replaces the previous asset which had reached the end of its life. Innovative Nereda technology used on site is expected to deliver a 50% reduction in energy use and an enhanced level of treatment.

Protecting our water environment

Increasing the amount of monitoring and alarms across the sewer system is key to ensuring infrastructure works effectively and pollution risk is reduced. As is increasing the use of nature-based solutions to help create capacity in sewers by ensuring more rainwater is kept out of our sewers.

As part of the commitments in the Improving Urban Waters Routemap we have installed over 1,000 Event Duration Monitors to Combined Sewer Overflow locations. We are also set to deliver on our promise to publish with our near real-time overflows dashboard going live before the end of the calendar year. Information from these and from our Waste Water Intelligent Networks (WWINs) will inform better decision-making, prevention and response. We have plans to go well beyond our commitment, increasing to a total of 2,000 monitors

CASE STUDY: Mega screw pump keeps Capital sewer flowing

We hit a major milestone on a multi-million pound project in central Edinburgh after installing a 16-tonne screw pump as part of the refurbishment of McDonald Road Waste Water Pumping Station.

The site uses enormous screw pumps to move millions of litres of waste water across the capital. It has been in operation for 50 years and to ensure the continued efficiency and reliability of the sewer network it is undergoing a major refurbishment.

The installation of the screw pump required careful planning and coordination, due to its weight and size – weighing the same as three elephants, as long as a Lothian Bus and 3 metres in diameter.

Many assets that keep our water and waste water cycle running are hidden underground. McDonald Road pumping station is crucial for managing the city's waste water and the upgrade will ensure it continues to serve the community and protect the environment – including nearby Portobello Beach – for many years to come.

by the end of 2025. And these will be located in 16 catchments in total by the end of next year, 13 more catchments than set out in the Improving Urban Waters Routemap.

Prioritised investment is taking place at three key discharge locations to reduce sewage-related debris entering the environment: Water of Leith, Edinburgh; Lord Ancrum's Wood, Midlothian; and Stewarton, East Ayrshire.

We all have a part to play in protecting water bodies and we will continue to reinforce our message on flushing behaviours, urging customers to flush only the 3 P's (poo, pee and toilet paper). The customer behaviour campaign Nature Calls used blockage rates to focus interventions in 11 towns where repeat calls are most frequent.

CASE STUDY: High pressure robot's super sewer powers

In a UK first, we deployed an ultra high-pressure robotic cutter to clear decades of industrial deposits blocking a strategic sewer in South Lanarkshire.

A kilometre of the Eastfield trunk sewer in Rutherglen had become heavily clogged with concrete-like calcite and suspected hazardous materials beneath former industrial land.

Sourced from Germany, this advanced cutter operates at 40,000 pounds-per-square-inch with remarkable precision and is one of only three in existence worldwide.

In just three months, it successfully cleared the sewer – a task we had struggled with for several years using conventional methods. This innovative approach allowed us to avoid the need for costly and disruptive sewer replacement.

Scottish Water 3D Concrete Printing

Surface water management

We have worked in partnership with a number of stakeholders to find and deliver more nature-based solutions to tackle surface water and reduce flooding in our cities and towns. This year we have been working closely with Dundee City Council to develop strategic plans for five priority districts in the city. The work is taking shape as a strategic drainage partnership which will focus on preventing flooding, increasing biodiversity and enabling development. It will also focus on using more nature-based solutions to help drain excess water away from targeted areas. Projects include creating a new public park and rain gardens to help keep rainwater out of the combined sewer system and remove surface water more effectively to prevent flooding.

Prospects

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

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

We will continue to introduce more waste water network monitoring using sensor technology and a digital platform to proactively manage the network and prevent EPIs, flooding and the related customer disruption that can bring.

Loch Katrine

Enabling Sustainable and Inclusive Economic Growth

We are committed to doing all we can to ensure Scotland flourishes and to inspire others to play their part too. We continue to invest in water and waste water assets to enable housing and other economic development the country relies on.

We have assets with capacity available to serve customers while others are at or beyond the capacity they were designed and built for. Since the Covid-19 pandemic we know there has been a change in the areas many people want to live, with an increase in more rural locations. We will encourage and support development where we have available capacity and continue to provide Government, developers and Local Authorities with visibility of where asset capacity is available.

The number of properties connected for water in the first six months was 6,798, compared with 8,904 for the same period last year. For waste water the number was 5,002 compared with 8,574. The main reason for the reduction in the number of properties connected is due to a change in methodology use to calculate connected properties. We use infrastructure revenue as a means of calculating connected properties as Scottish Water charges for each new property connecting to our network. In September last year the process for issuing and subsequent payment of invoices was amended to enable our development customers to pay in stages as opposed to having to pay the full invoice in a single payment at the outset.

Delivering Winchburgh Waste Water Treatment Works was our biggest project, enabling the town to thrive for years. Another major project we continue to work on is the Perth Waste Water Growth Scheme which will provide the capacity for the delivery of 12,000 homes. We are carrying out upgrades to the city's Waste Water Treatment Works over four different phases, investing in the region of £65 million with completion due in 2026 to accommodate the increasing population.

This year we have started working with developers earlier to provide site expertise on water and waste water issues. These meetings on site provide developers with the practical and technical advice prior to construction on new developments commencing. Benefits of this include ensuring carbon savings are implemented and increased asset quality resulting in lower operational maintenance and prevent and reduce potential future issues such as leakage.

FOCUS
IT transformation to benefit customer

We will be refreshing our remote inspections 'app' to enable customers from the development sector to submit photographs of connections work for approval without the need for us to attend the site. It will also have additional functionality to expand services and capability within the process, saving on costs and time and ensuring requirements are met.

Empowering Customers and Communities

The UK Customer Satisfaction Index (UKCSI), a national benchmark of customer satisfaction conducted by the Institute of Customer Service, has seen the Water Sector average score decrease to lowest ever levels. An overall UKCSI score is created using a weighted average of questions asked in the survey; these cover a range of topics including trust, reputation and complaint handling. Whilst Scottish Water's results have decreased in recent waves, it is other UK water companies who have experienced the most significant decline in their scores. Scottish Water currently rank 1st in the Water Sector, and 4th in the Utilities Sector in the latest July 2024 wave of reporting (based on survey responses gathered from customers in November 2023 and April 2024). Scottish Water also rank 1st in the Water Sector for many of the individual survey questions – including 'trust', 'reputation' and being 'open and transparent'.

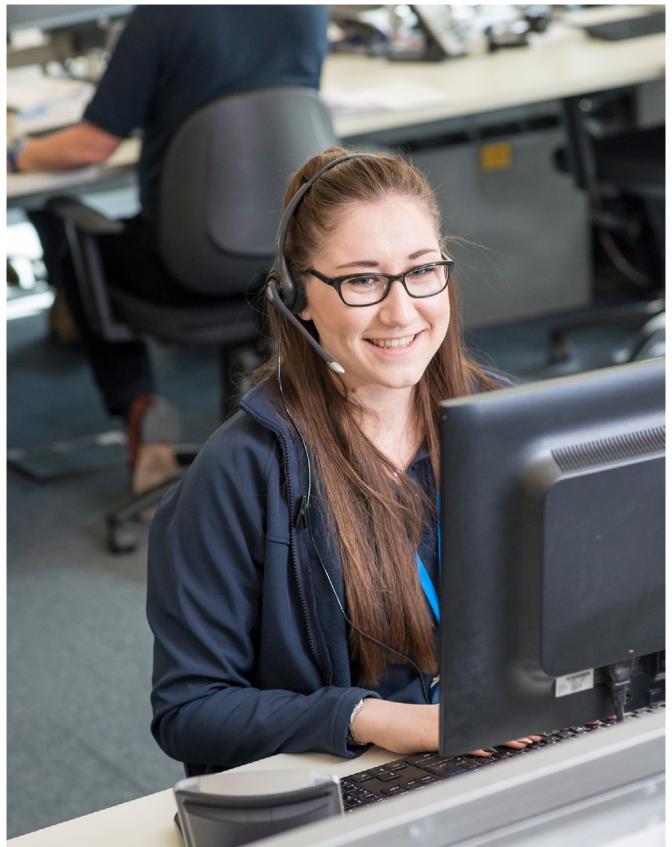
Whilst increasing media coverage – particularly related to CSOs and executive pay – has negatively impacted customer perception of Scottish Water and the wider water sector, we have started to see an upturn in perception linked to our 'Piped By Us, Owned By You' campaign. The campaign launched in February and highlights how we are publicly owned and our analysis has shown it has had a positive impact on customer trust levels. Our other campaigns and ongoing high levels of media and stakeholder updates (including to MSPs, councillors, local councillors, Local Authorities, community councils, campaign groups) have contributed to improvements in how we are seen with regards to protecting the environment as shown in the charts on the next page. (source: YouGov July 2024)


Winchburgh WwTW

Our household Customer Experience Measure (hCEM) has had a positive start, sitting at the top of target range. The main improvement in the measure has been a reduction of 22,228 Service Issue Contacts in the last six months – which is around the same volume as we receive on an average month. We have seen a substantial decrease in contacts relating to interruption to supply as a result of our proactive communication informing customers who have signed up to receive updates about interruptions in their area. Escalations and Formal Complaints have reduced on the same time last year.

Our non-household Customer Experience Measure (nhCEM) year-to-date score stands at 88.03, a slight decrease on 89.36 last year, and in target. There has been a small increase in complaints from these business customers. Development Customer Experience Measure (dCEM) as of September, the year-to-date score was 78.52, up on last year's 74.68, and also within target range. A number of targeted activities have contributed to the improvements including increased staff training, streamlined processes and improvements to the functionality of the Developer online portal.


Scottish Water Community Team


Customer Experience Centre Call Handler

We want to increase opportunities to engage with our customers and communities, and to work with them even earlier before any projects in their area begin, to ensure their views are heard. We regularly hold information events and attend events across the country to inform people of our work and educate them on the part they play keeping taps running and sewers flowing by only flushing the 3 Ps (pee, poo and toilet paper).

Our 'Your Water, Your Life' campaign continues to encourage people to top up from the tap. This helps to reduce single use plastics and promotes that reusing your water bottle and topping up from the tap is good for the planet, your pocket and your health. We continue to serve our customers when they are on the go and help them stay hydrated with our Top Up Taps, with 133 now installed in communities and parks across the length and breadth of the country. To date we estimate our Top Up Taps have helped save the equivalent of more than 13 million single use plastic bottles (330ml size) – issuing a total of 4.3 million litres.

Kirkcaldy Top Up Tap launch

FACT:

We welcomed the announcement that the UK will ban wet wipes containing plastic to help protect the environment. New legislation will be brought forward across all four nations and is expected to take effect in mid-2026. Public support for a ban was demonstrated through customer analysis of our Nature Calls campaign and Scottish Government consultation, with 95% of people agreeing wet wipes made with plastics should be banned.

FOCUS
Scottish Swimming Partnership

FOCUS
Generation H20

CASE STUDY:
Sewer teams leave their mark

Our sewer response teams – who clear 36,000 blockages a year – are adopting a bold new tactic to urge customers to "bin the wipes" that cause them.

To highlight the scale and nature of the problem caused by people wrongly flushing wipes down toilets, the teams are equipped with new signage about their work which they display before leaving a street stencil on the pavement explaining: "Another blockage cleared. Flushing wipes blocks pipes. "Bin the wipes."

We clear an average of 100 blockages per day and wipes are found in 80% of them.

Bin The Wipes Signage

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

Our People

The work all our people do all day, every day is vital to keep Scotland's water flowing. It is their dedication and hard work which enables us to deliver the vital high-quality services our customers rely on every day.

We have continued our focus on recruiting and developing young people to ensure we can deliver service excellence both now and in the future. We currently have 177 active apprentices and 101 graduates in our youth development schemes.

We have also worked to encourage more women to apply for our apprenticeship programmes and have increased female apprentices from 17% to 21%. This has been achieved through targeted recruitment campaigns, with young women making up 28% of the 54 apprentices in our most recent intake. Our work to increase diversity in our apprenticeship programmes contributed to us winning the 'Best Assessment and Selection Strategy' award at the FIRM Awards which recognises talent in acquisition (**https://thefirmawards.com/thefirmawards2024/en/page/winners-2024**).

We have continued to reform our pay and grading structure to ensure we recruit and retain the wide range of talented people needed to deliver services now and for the future. We have also updated our appraisal system making it easier for our people to set, evaluate and meet objectives.

FACT:

We held our Annual Consultative meeting at Aberdeen Science Centre where our senior leaders talked about how we are performing. They took part in a Q and A with attendees and with people who submitted questions online during a live stream of the event. Topics included what we are doing to continue to clean up our water bodies, how we plan to work closer with communities to deliver net zero and an update on new and more innovative projects we are doing to better manage surface water.

FACT:

76% of people now carry a reusable bottle when out and about, up from 53% in 2021, Awareness of our bright blue Top Up Taps is at an all time high with 60% of people saying they had seen them – and those who have used them report to feeling more positive towards Scottish Water.
*Source: YouGov July 2024.

Scottish Water Event Perth

FOCUS
Independent Customer Group

FACT:

We launched a refreshed annual all employee survey to increase ownership of improvement actions at all levels of Scottish Water. A total of 75% of employees took part, up 12% on the previous year. This included a rise in the number of field workers completing the survey. The results help us shape work we do to help and support our people including promoting inclusion and well being and ensuring we effectively engage with our staff as well as making helping attract new employees.

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Health and Safety Performance

The safety, health, and wellbeing of our people – and everyone we work with – are essential to our success. This year, we reduced lost-time accidents from 17 to 14 and lowered RIDDOR (Reporting of Injuries, Diseases, and Dangerous Occurrences) incidents from 14 to 9. However, serious accidents involving our partner organisations in the construction sector have increased, from 5 at this time last year to 7 this year. To address this, we're collaborating with our supply chain on multiple improvements, including enhanced site access control, better learning opportunities following incidents, sharing best practices, and improving the management of specialist subcontractors.

FACT:

To drive further progress in preventing and reducing incidents, we're leading an industry collective of partners and suppliers under the initiative, "We Care: Your Safety, Our Partnership." Together, we aim to advance the industry in Scotland toward our Beyond Zero Harm ambition.

FOCUS
Inclusive Employer of the Year

Prospects

We will continue to deliver our new People Strategy outlining how we strive to lead, engage and develop our people. It is aimed at ensuring our people are supported by inspiring and empowering leaders, leading to an inclusive and engaging environment for all. The strategy is inspired by best practice and innovation and designed to create a positive environment within the organisation and those we work with. We will move to a 35-hour working week in the second half of this year to help improve the wellbeing and work/life balance of our people and will do so without compromising on health and safety or the excellent 24/7 service we provide for our customers.

Scottish Water Event

BEYOND NET ZERO

Our greatest responsibility is to manage Scotland's public water and waste water systems, providing our customers with reliable and resilient services and in a way that is truly sustainable. We are investing more in innovation and transformation to deliver services for customers that are truly sustainable. Our focus remains on delivering our commitments to reach net zero by 2040 and be a leading organisation to help and inspire others on their own journey. In August we published our annual routemap update **The Net Zero Emissions Routemap**

Our Performance

We have continued to make progress against our Net Zero Routemap to reduce our carbon emissions. We have delivered 20 energy efficiency projects so far across our water and waste water assets.

FACT:

Our first solar and battery storage scheme on a water treatment works has begun operating at Howden, near Selkirk. It enables the site to use solar energy even when the sun is not shining. It will generate over a third of the site's power usage and save 169 tonnes of carbon every year – and also save around £180 a year in electricity costs.

Our renewables programme has delivered three schemes to date adding 1.5GWh capacity to our renewable portfolio. This includes an innovative hydro energy generation scheme at Whiteadder Reservoir in East Lothian, the first of its type in Europe. It uses siphon technology to generate energy while controlling the level of the reservoir without the need for major civil-engineering works.

We are making good progress with our peatland restoration activities, with 91 hectares (ha) - at Loch Fasgro on the Isle of Lewis now completed and we hope to restore over 400 ha in total this financial year across Scotland. We submitted 16 new woodland sites for Scottish Forestry approval and if given the green light they will start later this year delivering over 200 ha of new woodland planting. In addition, we are also starting to focus on smaller 'pop-up' forest planting with sites at Newton Mearns in East Renfrewshire, Dunside in Lanark and Acreknowe, near Hawick, planned. The first phase of our work to create major new woodlands along with Forestry Land Scotland at Loch Katrine, in the heart of the Loch Lomond and Trossachs National Park, has also started.


Turbines

CASE STUDY:
Major new woodlands at iconic loch

We received approval to create one of the biggest new woodlands in Europe at Loch Katrine, as part of a major scheme to protect water supplies for generations to come and help us reach our net zero ambitions.

The **10-year Land Management Plan** for Loch Katrine estate, developed in partnership with long-term tenant **Forestry and Land Scotland**, was given the go ahead by **Scottish Forestry**. It will see the lands around the loch boost the fight against the climate crisis by locking up more carbon and improving the resilience of the catchment to climate change.

The freshwater loch – which supplies water to 1.3 million people in the Greater Glasgow area and other parts of the Central Belt via infrastructure built largely by Victorian pioneers – is surrounded by 9,500 hectares of land.

Work includes the restoration and maintenance of several hundred hectares of peatland as well as the creation of over 4,600 hectares – the equivalent of more than 6,440 football pitches – of native woodland through re-wilding and natural regeneration.

The project should deliver a 40% increase in the status of biodiversity across the site, as well as capturing up to one million tonnes of carbon over 60 years. It will also help protect the quality and resilience of the water supply at the loch. Restoring natural woodland and encouraging healthy, functioning peatland and moorland will make the landscape more resilient to climate change, helping to stabilise soils, hold more water and slow the run-off from the land.

In the first half of this year we have also established an ethical supply chain for solar panels and are now looking to progress new solar schemes across Scotland where possible.

We have continued the roll out of process emission monitors with work completed at two key Waste Water Treatment Works, at Philipshill in East Kilbride and Allanfearn, near Inverness. These advanced analytic controls help further our understanding of nitrous oxide process emissions. We have also started to prepare for an ammonia recovery pilot at our Cumnock biosolids treatment centre to assess if removal of ammonia to obtain a fertiliser material could also reduce emissions.

Our low carbon construction practices and use of low carbon products has been progressing working alongside delivery partners on various projects. We have also continued our work towards certification to the revised PAS2080 (Publicly Available Specification) for carbon management, with our second assessment due later this year.

We continued to make good progress with the transition of our fleet to Net Zero, with further electric vehicles being used. We now have 540 electric vehicles ranging from vans to lease cars with more planned for the rest of the year. We have installed more charging points, taking our current total to 374 across Scotland.

Challenges

Not all our Net Zero activities are fully within our control and we have experienced supply chain delays, most noticeably with the delivery of our electric vehicles and process emission monitoring equipment. We also have delivery risks associated with obtaining approval and access rights for some of our woodland and peatland schemes.

Prospects

We will continue to develop new capabilities and change our behaviours to eliminate carbon emissions associated with our activities alongside delivering our service excellence and great value ambitions for our customers.

We are on track to progress the delivery of further renewable energy, energy efficiency and carbon capture projects over the year. We are also intending to expand our use of Hydrotreated Vegetable Oil (HVO) with our Private Finance Initiative (PFI) partner Veolia and within our water and waste water operational teams.

We are about to commence our main period for peatland restoration and woodland planting activities. This includes a trial of a new fungi-based technology designed to help improve tree resilience and growth and reduce the need to apply herbicides.

CASE STUDY: Climate Work Win at Worldwide Water Event

Our work on climate change mitigation and adaptation was recognised at the prestigious International Water Association's (IWA) World Water Congress and Exhibition held in Toronto.

We were successful in the IWA's Climate Smart Utilities Recognition Programme, which aims to inspire utility organisations around the world to become increasingly climate smart and embrace the cultural shift required for a water-smart future. Scottish Water was recognised in an award for companies deemed to have already made "substantial progress towards Net Zero".

IWA Congress

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

GREAT VALUE AND FINANCIAL SUSTAINABILITY

Our investment on a regulatory accounting basis was £545 million in the first six months of 2024/25 – an increase of £41 million against the first half of 2023/24. We are on track to have invested £1,100 million by the end of this year. This is being spent delivering vital projects to serve our customers and communities across Scotland. One of our ambitions is to ensure our customers receive great value, now and in the future. We know we have to deliver value for every pound we spend and also be transparent and accountable.

Our focus has been on improving drinking water quality, enhancing service resilience, protecting the environment and supporting economic development. We are also delivering specific projects to address issues including water ingress at Treated Water Storage Points, treatment process optimisation, infrastructure resilience and sewer flooding. Our delivery for the full year will see us take a strategic approach to infrastructure development, regulatory compliance and environmental protection to help improve service delivery for our customers and supporting ongoing economic growth.

We are a major employer in Scotland, both directly and indirectly, and have been working with our Delivery Partners to identify the skills and resources required to deliver our current capital investment programme and estimate we will need around 3,600 people across our supply chain, mostly involved in areas of construction, design and management. Most of these are based in Scotland. We are also looking at longer-term overall demand for labour and have identified several roles where we expect there to be challenges in recruiting people, these include non-civil engineers, technicians and surveyors. We have established a steering group to work with our partners to find solutions to our skills and resourcing challenges.


Whiteadder Reservoir Hydro Siphon Sink Spillway

Our Procurement and Supply Chain team are committed to making purchases and partnerships which mirror our organisation's characteristics – of being bold, responsible, inspiring and caring. It also works hard to ensure our people and supply chains are ethically safe. Our procurement strategies aim to create, support, develop and evolve a resilient, sustainable and growing supply chain in Scotland.

We have begun looking ahead to SR27 to procure partners to help deliver the capital and operational requirements for the next regulatory period. In June our Board approved in principle the procurement of an Enterprise model which is named Delivery Vehicle 4 (DV4). This is a bolder and more innovative way of working which will require closer integration and collaboration between Scottish Water and the supply chain than ever before, part of a growing Team Scotland approach.

We reviewed our supply chain for photovoltaic solar panels and have created a Dynamic Purchasing System (DPS) to better enable us to work alongside ethically safe supply chains and, when needed, help us source suitable alternative products.

FACT:

To work with us, our supply chain must comply with the requirements of the Modern Slavery Act, the Human Trafficking and Exploitation (Scotland) Act and equivalent legislation. We have an Anti-Slavery Policy and publish a Modern Slavery Statement on an annual basis.

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Prospects

We will be working to deliver strategic initiatives aimed at enhancing infrastructure, improving service delivery, and ensuring compliance with regulatory standards. This will include significant projects to construct new water treatment works, upgrades to existing works and the implementation of new technologies to improve water quality and service reliability. Initiatives include the installation of new dosing systems, sludge treatment upgrades and the implementation of new monitoring and control systems.

To help on our journey to Net Zero we embed carbon management practices into our procurements to measure any carbon emissions, these create carbon plans which provides a foundation to support, investigate and drive carbon reduction across our work. We will continue to look at ways to reduce our carbon in construction including the creation of a framework for increased use of Hydrotreated Vegetable Oil (HVO) as a replacement for diesel, which has been adopted by many supply chain partners. We will also continue to look for new opportunities to use more low carbon kiosks, low carbon steel and greater adoption of recycled materials to help us go beyond net zero.

FOCUS
Digital Innovation to drive efficiency

Transforming how we work

We've continued to make strong progress in transforming how we invest, work and serve our communities, staying true to our purpose and strategic ambitions. Our focus this year to date as been on mobilising key programmes that are transforming our efficiency and service delivery. These initiatives are not only changing how we invest and serve, but also ensuring our people remain at the heart of our transformation.

This included work to transition our Incident Control Centre to a Remote Operating Centre. This move gives our teams involved in any incident – from major flooding and bursts to machine failures – access to more data, analytics and automation to help predict, prevent and manage service risks. Early achievements include our first remote operation of a water treatment works, demonstrating the potential for future advancements across our networks.

As we continue our transformation journey, our focus remains on delivering value for customers, advancing our Net Zero ambitions, and maintaining strong engagement with stakeholders. Our commitment to innovation and collaboration will ensure a lasting, positive impact on both our operations and the communities we serve.

Afton Reservoir

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

FINANCIAL SUSTAINABILITY

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An overview of year-on-year Group performance, on a statutory accounting basis, is provided below. Year-on-year performance of the three main business segments covering regulated services, Business Stream and non-regulated services is detailed on pages 21 to 26. Performance of regulated services, on a regulatory accounting basis, and future prospects for that business are provided on pages 27 to 31.

Financial Performance – Group Overview

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

The group surplus before tax for the six months to 30 September 2024 decreased by £12 million to £60 million (Sept 2023: £72 million). This was due mainly to a £13 million reduction in Scottish Water regulated activities reflecting increased asset repair costs reflecting continued pressure on our ageing asset base.

Consolidated capital investment increased £17 million to £380 million (Sept 2023: £363 million) reflecting increased investment in Scottish Water's regulated activities.

In the six months to 30 September 2024, consolidated net debt increased by £124 million to £4,466 million. The increase was driven by a £179 million decrease in cash balances to £183 million offset by net debt repayments in the first six months of the year of £55 million to £4,649 million. The movements are summarised in the second table below by trading segment:

The cash balance within Scottish Water's regulated business is primarily required for the funding of its investment programme and working capital.

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Inter-Company eliminations £m		Consolidated Total £m	
	Sept 2024	Sept 2023	Sept 2024	Sept 2023	Sept 2024	Sept 2023	Sept 2024	Sept 2023	Sept 2024	Sept 2023
Revenue	790	722	357	347	11	10	(115)	(106)	1,043	973
Operating Costs	(665)	(588)	(350)	(340)	(10)	(9)	115	106	(910)	(831)
Operating Surplus	125	134	7	7	1	1	–	–	133	142
Finance Costs	(76)	(72)	2	1	1	1	–	–	(73)	(70)
Surplus before Tax	49	62	9	8	2	2	–	–	60	72

	Scottish Water Regulated £m		Business Stream 'Group' £m		Horizons 'Group' £m		Consolidated Total £m	
	Sept 2024	Mar 2024	Sept 2024	Mar 2024	Sept 2024	Mar 2024	Sept 2024	Mar 2024
Cash	100	280	39	38	44	44	183	362
Debt	(4,649)	(4,704)	–	–	–	–	(4,649)	(4,704)
Net Debt	(4,549)	(4,424)	39	38	44	44	(4,466)	(4,342)

Group Taxation

Scottish Water was awarded the Fair Tax Mark for the fourth time in December 2023. The Fair Tax Mark is reviewed on an annual basis with the expectation it will be awarded in future years, demonstrating the continued commitment from Scottish Water to play fair by tax.

The consolidated tax charge on the income statement to 30 September 2024 was £16 million (Sept 2023: £19 million). Additional information is provided at note 3 to the financial statements.

Group Pension Arrangements

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

The actuarial movements, net of deferred tax, are presented in the consolidated statement of comprehensive income with further detail in note 8 to the financial statements (on pages 48 to 50).


Reservoir Intake Inspection

FINANCIAL SUMMARY OF YEAR-ON-YEAR PERFORMANCE

Scottish Water Regulated Business

Revenue

Revenue for the six months to 30 September 2024 increased by £68 million or 9.4% to £790 million[1] (Sept 2023: £722 million). This is analysed by category in the table below. The increase reflects an average charge increase of 8.8% for household and wholesale customers applied on 1 April 2024 and new connections to services. Cumulatively, for the first four years (2022 to 2025) of this six-year regulatory period, charges were 0.4% below CPI inflation.

	Sept 2024 £m	Sept 2023 £m	Inc/(dec) £m
Household	576	524	52
Wholesale	206	188	18
Other	8	10	(2)
Total revenue	**790**	**722**	**68**

Operating Costs, PFI and Depreciation

Total operating costs in the first six months of the year increased £77 million or 13.1% to £665 million (Sept 2023: £588 million). The table below reconciles regulatory operating and PFI costs, shown in the regulatory section on page 28 with total operating cost per the statutory accounts.

	Sept 2024 £m	Sept 2023 £m	(Inc)/Dec £m
Regulatory operating costs	(232)	(204)	(28)
PFI costs	(85)	(80)	(5)
Repair costs	(165)	(142)	(23)
Cloud computing arrangement costs	(12)	(7)	(5)
Depreciation and amortisation	(183)	(167)	(16)
Gain on sale of assets	1	1	-
IAS 19 pension & employee cost adjustment	1	1	-
PFI cost adjustment – finance costs to lease liability[2]	10	10	-
Total operating cost per statutory accounts	**(665)**	**(588)**	**(77)**
Scottish Water non-regulated costs	(1)	(1)	-
Total company operating costs per statutory accounts	**(666)**	**(589)**	**(77)**
Analysed as:			
Cost of sales	(609)	(533)	(76)
Administrative expenses	(57)	(56)	(1)
Total	**(666)**	**(589)**	**(77)**

[1] This excludes Infrastructure charge income of £6m (Sept 2023: £8m) and disposal proceeds from sale of assets of £1m (Sept 2023: £1m) which is included in the regulatory accounting basis set out on page 28 below.

[2] PFI costs, for statutory reporting purposes, are treated as finance leases. 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.

Regulated operating costs increased £28 million or 13.7% to £232 million (Sept 2023: £204 million) due to a one-off refund in the six months to September 2023 of £25 million relating to rates charges. Excluding this refund, regulatory operating costs are only £3 million or 1.5% higher than last year.

PFI costs increased in the first six months of the year by £5 million or 6.3%, to £85 million (Sept 2023: £80 million) reflecting inflationary impacts on the PFI contracts which broadly increase by RPI inflation annually.

Repair costs in the first six months of the year increased by £23 million or 16.2% to £165 million (Sept 2023: £142 million) due to higher volumes of repairs, driven by our ageing asset base and inflationary pressures on costs.

Finance Costs

Net finance costs in the first six months of the year increased £4 million to £76 million (Sept 2023: £72 million). The increase was mainly driven by higher interest charges on loans. The table below details the elements of net finance costs:

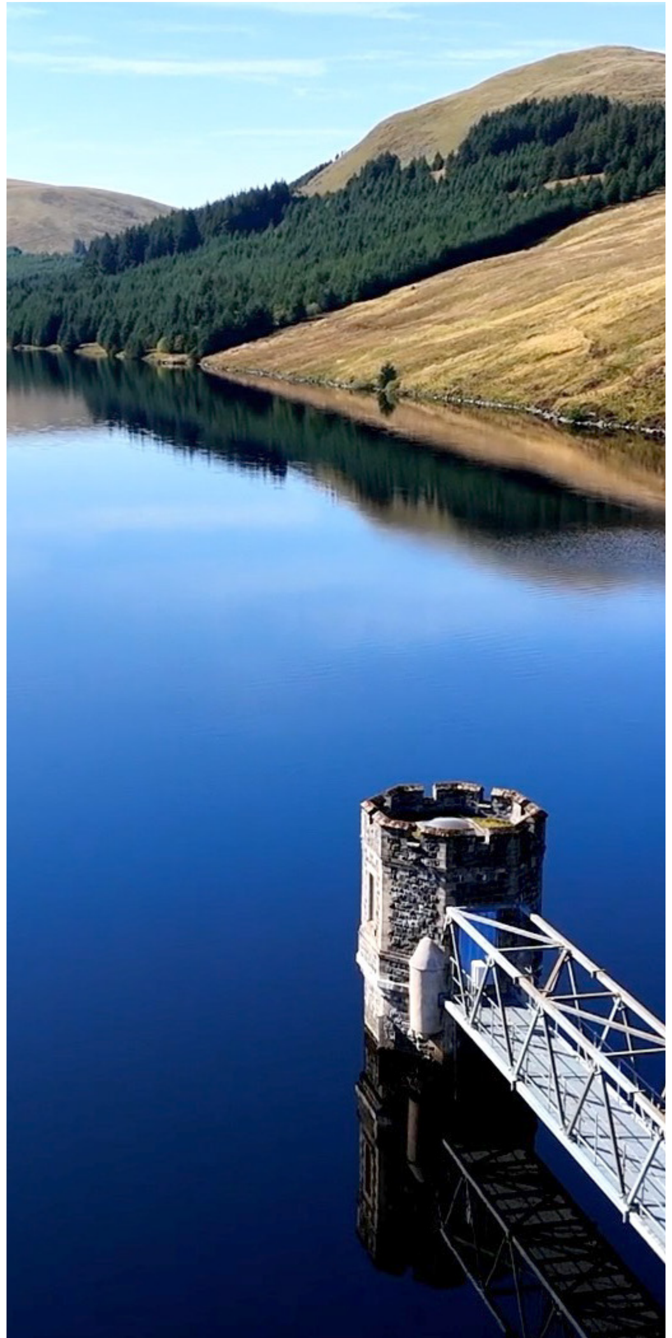
	Sept 2024 £m	Sept 2023 £m	(Inc)/Dec £m
Interest charges	(76)	(73)	(3)
Interest receipts	5	6	(1)
PFI finance lease costs (IFRIC 12)	(5)	(5)	–
Net finance costs	**(76)**	**(72)**	**(4)**

As at 30 September 2024, the weighted average interest cost of the outstanding long-term debt within Scottish Water's regulated business reduced to 3.1% (March 2024: 3.2%). This was due to the repayment of £55 million loans that had a weighted average interest rate of 5.6%. At the 30 September no net new loans have been borrowed from the Scottish Government in this financial year.

Depreciation and amortisation charges increased in the year by £16 million or 9.6% to £183 million (Sept 2023: £167 million), due to the profile of capital investment and completed projects coming into beneficial use. Cloud computing arrangement costs were £5 million higher at £12 million (Sept 2023: £7 million) reflecting further transition to sustainable cloud based digital solutions.

Surplus Before Tax

The surplus before tax decreased £13 million or 21% to £49 million (Sept 2023: £62 million) for the six months to 30 September 2024.



Afton Reservoir

Capital Investment

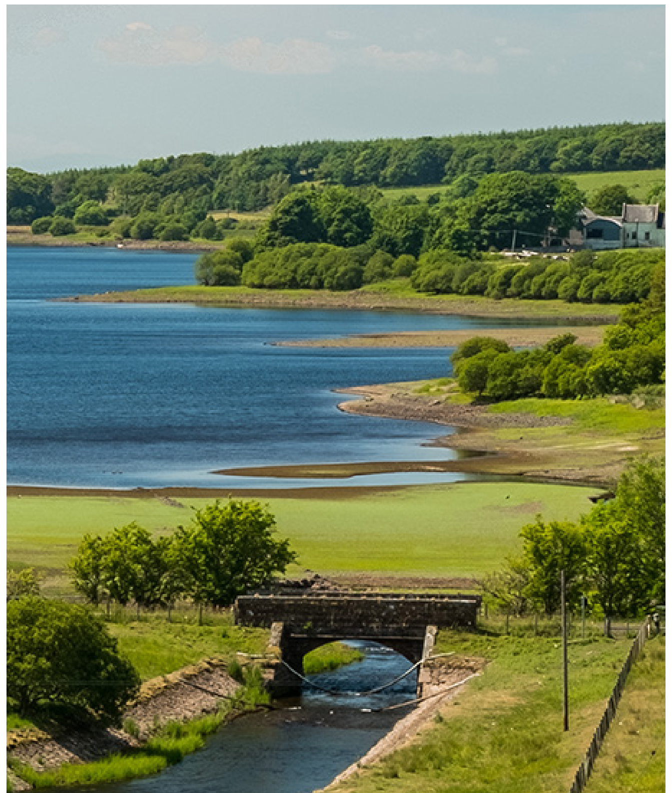
On a statutory accounting basis, investment for the first six months of the year was £379 million, £19 million higher than the first six months of last year and reflecting the planned increase to the investment programme. The table below reconciles planned investment on a regulatory accounting basis [as highlighted on page 30] with investment as stated in the statutory accounts.

	Sept 2024 £m	Sept 2023 £m	Change £m
Planned investment on a regulatory accounting basis	**413**	**400**	**13**
Less planned repairs charged to the Income Statement	(50)	(54)	4
Add refurbishment costs included in responsive refurbishment costs	17	16	1
Add developer contributions	22	16	6
Less investment funded mainly from infrastructure charges and the settlement of contractual claims etc	(12)	(11)	(1)
Less cloud-based projects charged to Income Statement	(12)	(7)	(5)
Add right of use asset additions	1	-	1
Company capital additions as at 30 September 2024 per note 4	**379**	**360**	**19**

Cash

The cash balance for the six months to 30 September 2024 within Scottish Water's regulated business decreased by £180 million to £100 million (March 2024: £280 million) reflecting cash outflows from investing and financing activities of £536 million, offset by operating cash inflows of £356 million.

Any large infrastructure organisation that provides an essential service requires significant access to cash to maintain its activities and to respond to unforeseen events. Cash balances each year are largely a function of when borrowing is drawn down from the Scottish Government relative to when it is invested and, unlike similar infrastructure businesses, Scottish Water does not have access to any other form of credit facilities. Scottish Water's risk appetite determines that the regulated business should always have access to approximately four weeks expenditure. The balance of cash has been committed for future investment delivery as set out in note 9 on page 50.



Camphill and Muirhead

BUSINESS STREAM

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Overview

Business Stream is Scottish Water's licensed retail subsidiary and one of the largest water retailers in the UK, supplying water and waste water services to over 300,000 business customers throughout Scotland and England. Business Stream is a wholly owned subsidiary of Scottish Water with its own Board and independent management team. Scottish Water exercises governance over Business Stream through Scottish Water Business Stream Holdings.

Strategic and Financial Framework

Business Stream's commercial strategy is to retain and grow market share through a combination of acquisition and organic growth. With the aim of being the water and waste water services supplier of choice for businesses, Business Stream strives to differentiate itself in the market through quality of service and added value by helping customers find the solution that's right for them.

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

Performance Review

Following the award of the Scottish Government's Waste and Water Framework contract to Business Stream in March 2024, a significant priority in the first half of this year has been seamlessly transitioning customers to the new Framework and onboarding new participants. There continue to be ongoing challenges for many customers following recent macro-economic pressures. Business Stream's main priority has been to deliver high quality service and support to customers through this period, which has included further investment in customer portals and digital channels to improve functionality and ease of use for customers.

The retail market continues to be highly competitive in some segments, and it is against this backdrop that Business Stream has retained its position as one of the largest retailers in the UK water market and delivered good results against its key business performance targets.

Financial Performance

Revenue from this business segment for the period to 30 September 2024 totalled £357 million (September 2023: £347 million) (per note 2 to the financial statements). This represents 31% (September 2023: 32%) of the Group revenue, before intercompany eliminations. The surplus before tax within this segment was £9 million (September 2023: £8 million), with increased gross profit due to higher gross margins (£2 million), and increased interest income from positive net cash balances (£1 million), partially offset by increased levels of bad debt (£1 million) reflecting an increase in the number of business insolvencies.

Cash balances at 30 September 2024 were £39 million (31 March 2024: £38 million), after the repayment of £5 million of borrowings in September 2024, which reduced the level of debt from £25 million to £20 million. Debt is funded through a Revolving Credit Facility with Scottish Water Business Stream Holdings. The £20 million of outstanding debt was drawn in 2023 to fund increased wholesale prepayments to Scottish Water in line with regulatory requirements.

NON-REGULATED BUSINESS ACTIVITIES

Overview

Non-regulated business activities are predominantly undertaken by Scottish Water Horizons Holdings and mainly operate through Scottish Water Horizons.

Revenue from this business segment to 30 September 2024 totalled £11 million (Sept 2023: £10 million) (per note 2 to the financial statements) representing 1% (Sept 2023: 1%) of the group revenue, before intercompany eliminations. The surplus before tax within this segment was £2 million (Sept 2023: £2 million). The profits generated within the group are invested in the future development of the business.

Investment during the year within Scottish Water Horizons totalled £1 million with a focus on low carbon investments. This included extending the solar scheme at Rosebery Water Treatment Works to have the capacity to generate an additional 0.1GWh of energy output and save around 15 tonnes of carbon per year. Further solar, hydro-electric and battery storage schemes are also being progressed with 3 solar schemes planned for delivery by the end of March 2025.

Cash balances within the Horizons group of companies remained stable at £44 million. Horizons continues to evaluate new commercial opportunities that will generate additional cash and strengthen financial stability including assessing opportunities to incubate and sell-on business activities and associated assets.

On 9 October 2024, Scottish Water Horizons completed the sale of the Low Carbon Heat schemes which was classified as an asset held for sale at the balance sheet date. Additional information relating to the sale is provided at note 4 and note 14 to the accounts.

Loch Gleann A Bhearraidh

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FINANCIAL PERFORMANCE SCOTTISH WATER – REGULATED SERVICES

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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)[3]. The following tables and commentary have therefore been presented on that basis and compared to the Final Determination (FD) prepared by the Water Industry Commission for Scotland (WICS).

The Regulated Income & Expenditure Statement and Capital Investment for the six months to 30 September 2024 compared to the mid-point of the Final Determination[4] is presented below.

Scottish Water Regulated Income & Expenditure Statement	Six months to 30 September 2024 £m	Mid-point of WICS financial model underpinning FD 2024/25 £m	Variance 2024/25 £m	Cumulative variance 1 April 21 to 30 September 2024 £m
Total revenue	**797**	**863**	**(66)**	**(251)**
Regulatory operating costs	(232)	(323)	6	38
PFI costs	(85)			
Interest charges	(71)	(94)	23	130
Costs before items subject to LTNC	**(388)**	**(417)**	**29**	**168**
Total available to support investment before LTNC items	**409**	**446**	**(37)**	**(83)**
Responsive repair & refurbishment costs	(113)	(140)	27	133
Developer contributions	(15)	(18)	3	12
Tax paid	(1)	(3)	2	15
Total LTNC Items	**(129)**	**(161)**	**32**	**160**
Surplus after charging LTNC items	**280**	**285**	**(5)**	**77**

Revenue

Revenue in the six months to 30 September at £797 million was in line with plan but £66 million lower than anticipated in the Final Determination. Charges in the Final Determination were based on CPI inflation plus 2% per annum but despite charge increases for 2024/25 being 4.2% higher than inflation, cumulatively for the first four years of the regulatory period, charges are 0.4% below CPI inflation and c. 8.7% below the charge path anticipated in the Final Determination.

[3] LTNC Items – Responsive repair and refurbishment costs, developer contributions and tax.

[4] 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.

Operating Costs, PFI and Interest

Costs before items subject to LTNC in the first six months at £388 million, were £29 million lower than anticipated in the Final Determination, driven by lower interest charges of £23 million and lower operating and PFI costs of £6 million.

As set out in the 2023/24 Performance and Prospects, planned costs before items subject to LTNC were expected to be £815 million, equivalent to approximately £401 million at half year. Actual outturn was £13 million lower at £388 million. The main contributors, compared to plan, are mainly attributable to lower electricity costs compared with the market expectations when we set the plan and lower interest charges driven by improved interest rates paid on funds on deposit.

The table below reconciles the total available to support investment of £409 million, shown in the table above, to the Scottish Water surplus before tax in the financial statements of £49 million, referenced in the financial summary of year-on-year performance above and on the financial statements on page 34.

	Sept 2024 £m
Regulated funding for planned investment before LTNC adjustments (per table above)	**409**
Deduct actual expenditure on LTNC items	(154)
Less depreciation & amortisation charges	(183)
Less Cloud computing costs	(12)
Add back developer contributions less infrastructure charge income awaiting investment	16
Disposal proceeds less gain or loss on disposal of assets	–
Planned maintenance costs less refurbishment costs capitalised	(33)
Retirement benefit obligation:	
Operating costs	1
Finance costs	(5)
PFI finance lease costs (IFRIC 12) adjustment	10
Scottish Water Surplus Before Tax per statutory accounts	**49**

Long-Term Normative Charge Items (LTNC)

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

Actual expenditure in the six months to 30 September for responsive repairs and refurbishment was £132 million compared to the LTNC charge for the period of £113 million, which itself was £27 million lower than the Final Determination assumption of £140 million. Cumulatively, the LTNC for responsive repairs and refurbishment was £133 million lower than the level assumed in the Final Determination. Over the remainder of the 2021-27 regulatory period the business expects to experience increases to responsive repair and refurbishment costs as assets continue to age.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach in these with normative charges of £30 million per annum for developer contributions and £1 million per annum for tax paid. In the six months to 30 September actual expenditure for developer contributions and taxation was £22 million and zero respectively.

Consequently, total actual expenditure on LTNC items in the six month period to 30 September was £154 million, £25 million higher than the LTNC over the same six month period last year.

Over the 2024-27 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.

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Capital Investment

Gross planned investment, on a regulatory accounting basis, in the first six months to 30 September was £413 million, which was £117 million or c. 17% higher than the Final Determination. When combined with responsive repair and refurbishment costs, total regulated investment was £545 million in the first six months to 30 September. The table below compares performance to the investment expectations in the Final Determination.

Investment on a regulatory accounting basis	Six months to 30 September 2024 £m	Mid-point of WICS financial model underpinning FD 2024/25 £m	Variance 2024/25 £m	Cumulative variance 1 April 21 to 30 September 2024 £m
Planned investment	413	387	26	112[5]
Responsive repair & refurbishment costs	132	140	(8)	(209)[6]
Total	**545**	**527**	**18**	**(97)**

Prospects for the regulated business for 2024/25 and 2025/26

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

The mid-range forecast of regulated income & expenditure for the year to March 2025 compared to the Final Determination is presented below.

Scottish Water Regulated Income & Expenditure Statement	Forecast 2024/25 £m	Final Determination 2024/25 £m	Variance 2024/25 £m	Cumulative Variance £m
Total revenue	**1,590**	**1,727**	**(137)**	**(322)**
Regulatory operating costs	(489)	(646)	(13)	19
PFI operating costs	(170)			
Interest charges	(145)	(189)	44	151
Costs before items subject to LTNC	**(804)**	**(835)**	**31**	**170**
Total available to support investment before LTNC items	**786**	**892**	**(106)**	**(152)**
Responsive repair & refurbishment costs	(225)	(280)	55	161
Developer contributions	(30)	(36)	6	15
Tax paid	(1)	(6)	5	18
Total LTNC Items	**(256)**	**(322)**	**66**	**194**
Surplus after charging LTNC items	**530**	**570**	**(40)**	**42**

[5] Cumulatively to 31 March 2024, planned investment £86 million higher than the Final Determination level.

[6] Cumulatively to 31 March 2024 responsive repair & refurbishment costs were £580 million, £201 million lower than the Final Determination Level.

Total revenue for 2024/25 is forecast to continue in line with the trend for the six months to September. Costs before items subject to LTNC for 2024/25 are forecast to remain below plan and the level anticipated in the Final Determination, marginally higher than in the six months to September. This is due to the cost of operating in the winter months (e.g. electricity) and the impact of interest charges on new loans.

The preliminary forecast ranges for 2025/26 compared with the Final Determination are presented in the table below.

Our preliminary forecast for revenue for 2025/26 is based on a range of potential charge increases. The higher end of the range reflects charge increases required to enable a profile that aligns with an exit revenue at March 2027 at a similar level as that set out in the Final Determination.

Our preliminary forecast range for costs, before items subject to LTNC, reflects our ambition to out-perform the Final Determination by up to £20 million.

Scottish Water Regulated Income & Expenditure Statement	Preliminary Forecast 2025/26 £m	Final Determination 2025/26 £m	Variance 2025/26 £m
Total revenue	**1,685 – 1,815**	**1,823**	**(8) – (138)**
Costs before items subject to LTNC	**(840) – (825)**	**(847)**	**7 – 22**
Total available to support investment before LTNC items	**845 – 990**	**976**	**(131) – 14**
Total LTNC Items	**(256)**	**(325)**	**69**
Surplus after charging LTNC items	**589 – 734**	**651**	**(62) – 83**

Glendevon Reservoir

INDEPENDENT REVIEW REPORT TO SCOTTISH WATER
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2024

Conclusion

We have been engaged by Scottish Water ("the Company") to review the Condensed Consolidated and Company Interim Financial Statements in the Interim Report and Accounts for the six months ended 30 September 2024 which comprises the condensed consolidated and company income statements, the condensed consolidated and company statements of comprehensive income, the condensed consolidated and company statements of financial position, the condensed consolidated statement of changes in equity, the company statement of changes in equity, the condensed consolidated and company statements of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the Condensed Consolidated and Company Interim Financial Statements in the Interim Report and Accounts for the six months ended 30 September 2024 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the Interim Report and Accounts and consider whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed Consolidated and Company Interim Financial Statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the Board Members have inappropriately adopted the going concern basis of accounting, or that the Board Members have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group or the Company will continue in operation.

Board Members' responsibilities

The Interim Report and Accounts is the responsibility of, and has been approved by, the Board Members.

As disclosed in note 1, the annual financial statements of the Group and Company are prepared in accordance with UK-adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2023/24 Government Financial Reporting Manual ("FReM") and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards, and, where otherwise appropriate, as interpreted and adapted by the 2024/25 FReM. The Board Members are responsible for preparing the Condensed Consolidated and Company Interim Financial Statements included in the Interim Report and Accounts in accordance with IAS 34 as adopted for use in the UK.

In preparing the Condensed Consolidated and Company Interim Financial Statements, the 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 the Board Members either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT REVIEW REPORT TO SCOTTISH WATER
FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2024

Our responsibility

Our responsibility is to express to the Company a conclusion on the Condensed Consolidated and Company Interim Financial Statements in the Interim Report and Accounts based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Timothy Cutler
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square,
Manchester,
M2 3AE
[Date]

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CONDENSED CONSOLIDATED AND COMPANY INCOME STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

	Note	Group			Company		
		Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m	Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m
Revenue	2	**1,042.9**	**973.2**	**1,934.9**	**790.8**	**723.4**	**1,449.2**
Cost of sales		(824.0)	(747.0)	(1,575.4)	(609.4)	(532.8)	(1,154.0)
Gross surplus		**218.9**	**226.2**	**359.5**	**181.4**	**190.6**	**295.2**
Administrative expenses		(85.9)	(84.5)	(166.8)	(56.5)	(56.4)	(116.2)
Operating surplus	2	**133.0**	**141.7**	**192.7**	**124.9**	**134.2**	**179.0**
Finance income		6.7	6.7	15.8	5.1	5.8	13.3
Finance costs		(79.7)	(76.8)	(153.9)	(80.7)	(77.7)	(156.2)
Surplus before taxation		**60.0**	**71.6**	**54.6**	**49.3**	**62.3**	**36.1**
Taxation	3	(16.3)	(18.7)	(15.3)	(12.4)	(15.8)	(9.7)
Surplus for the period		**43.7**	**52.9**	**39.3**	**36.9**	**46.5**	**26.4**

CONDENSED CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

	Note	Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m	Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m
Surplus for the period		43.7	52.9	39.3	36.9	46.5	26.4
Other comprehensive income for the period							
Items which will not subsequently be reclassified to the income statement							
Actuarial loss on post employment benefit obligations	8	(35.8)	(11.4)	(48.3)	(36.0)	(9.0)	(46.1)
Deferred tax on remeasurement of post employment benefit obligations		9.0	2.8	12.1	9.0	2.3	11.6
Total comprehensive income for the period		16.9	44.3	3.1	9.9	39.8	(8.1)

The surplus for the period and total comprehensive income for the period are attributable to the owners of Scottish Water.
The notes on pages 39 to 53 form an integral part of the condensed consolidated and company interim financial information.

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

CONDENSED CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2024

	Note	Group			Company		
		Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m	Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m
Assets							
Non-current assets							
Property, plant and equipment	4	7,682.2	7,315.7	7,476.3	7,648.1	7,284.4	7,442.2
Intangible asset	5	15.1	27.1	20.4	8.6	16.7	12.0
Investments		–	–	–	37.6	37.6	37.6
Deferred tax asset		2.9	2.2	3.0	–	–	–
Retirement benefit asset	8	2.8	–	55.6	2.8	–	55.6
		7,703.0	7,345.0	7,555.3	7,697.1	7,338.7	7,547.4
Current assets							
Inventories		4.8	4.6	4.9	4.4	4.2	4.4
Assets held for sale	4	13.6	7.9	7.9	–	–	–
Trade and other receivables		896.9	847.1	344.1	681.2	629.1	133.0
Current tax asset		17.0	16.8	17.0	16.5	16.5	16.5
Cash and cash equivalents	7	182.8	330.0	362.1	100.4	258.7	280.2
		1,115.1	1,206.4	736.0	802.5	908.5	434.1
Total assets		**8,818.1**	**8,551.4**	**8,291.3**	**8,499.6**	**8,247.2**	**7,981.5**
Liabilities							
Current liabilities							
Trade and other payables		(1,101.6)	(1,072.6)	(541.3)	(999.7)	(964.8)	(436.9)
Other loans and borrowings	12	(26.0)	(23.0)	(23.6)	(25.5)	(23.0)	(23.6)
Current tax liabilities		(2.2)	(1.1)	(2.1)	–	–	–
Provisions for liabilities		(14.1)	(14.2)	(11.7)	(16.9)	(17.0)	(16.0)
		(1,143.9)	(1,110.9)	(578.7)	(1,042.1)	(1,004.8)	(476.5)
Non-current liabilities							
Trade and other payables		(96.5)	(96.1)	(104.7)	(77.1)	(76.9)	(81.8)
Other loans and borrowings	12	(135.3)	(141.8)	(130.0)	(131.1)	(141.8)	(130.0)
Deferred tax liabilities		(692.7)	(704.3)	(688.9)	(690.1)	(702.1)	(686.6)
Retirement benefit obligations	8	(74.1)	–	(76.4)	(74.1)	–	(76.4)
Provisions for liabilities		(9.8)	(10.6)	(8.0)	(11.3)	(12.2)	(10.6)
		(1,008.4)	(952.8)	(1,008.0)	(983.7)	(933.0)	(985.4)
Total liabilities		**(2,152.3)**	**(2,063.7)**	**(1,586.7)**	**(2,025.8)**	**(1,937.8)**	**(1,461.9)**
Net assets		**6,665.8**	**6,487.7**	**6,704.6**	**6,473.8**	**6,309.4**	**6,519.6**
Equity							
Government loans	7	4,648.7	4,446.3	4,704.4	4,648.7	4,446.3	4,704.4
Retained earnings		1,883.7	1,908.0	1,866.8	1,691.7	1,729.7	1,681.8
Other reserves		133.4	133.4	133.4	133.4	133.4	133.4
		6,665.8	**6,487.7**	**6,704.6**	**6,473.8**	**6,309.4**	**6,519.6**

The notes on pages 39 to 53 form an integral part of the condensed consolidated and company interim financial information.
The condensed set of financial statements on pages 34 to 38 were approved by the Board on 4 December 2024 and signed on its behalf by:

Alex Plant,
Chief Executive

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2023	1,863.7	133.4	1,997.1
Surplus for the six months ended 30 September 2023	52.9	–	52.9
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(8.6)	–	(8.6)
Total comprehensive income for the period	44.3	–	44.3
Balance at 30 September 2023	**1,908.0**	**133.4**	**2,041.4**
Balance at 1 April 2023	1,863.7	133.4	1,997.1
Surplus for the year ended 31 March 2024	39.3	–	39.3
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(36.2)	–	(36.2)
Total comprehensive income for the year	3.1	–	3.1
Balance at 31 March 2024	**1,866.8**	**133.4**	**2,000.2**
Surplus for the six months ended 30 September 2024	43.7	–	43.7
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(26.8)	–	(26.8)
Total comprehensive income for the period	16.9	–	16.9
Balance at 30 September 2024	**1,883.7**	**133.4**	**2,017.1**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

	Retained earnings £m	Other reserves £m	Total reserves £m
Balance at 1 April 2023	1,689.9	133.4	1,823.3
Surplus for the six months ended 30 September 2023	46.5	–	46.5
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(6.7)	–	(6.7)
Total comprehensive income for the period	39.8	–	39.8
Balance at 30 September 2023	**1,729.7**	**133.4**	**1,863.1**
Balance at 1 April 2023	1,689.9	133.4	1,823.3
Surplus for the year ended 31 March 2024	26.4	–	26.4
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(34.5)	–	(34.5)
Total comprehensive income for the year	(8.1)	–	(8.1)
Balance at 31 March 2024	**1,681.8**	**133.4**	**1,815.2**
Surplus for the six months ended 30 September 2024	36.9	–	36.9
Other comprehensive income:			
Actuarial loss on post employment benefit obligations, net of tax	(27.0)	–	(27.0)
Total comprehensive income for the period	9.9	–	9.9
Balance at 30 September 2024	**1,691.7**	**133.4**	**1,825.1**

The 'Statement of changes in equity' above excludes Government loans which, in accordance with the Corporate Governance Direction, are recorded on the balance sheet under Equity.

The notes on pages 39 to 53 form an integral part of the condensed consolidated and company interim financial information.

CONDENSED CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

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	Note	Group			Company		
		Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m	Half year to September 2024 Unaudited £m	Half year to September 2023 Unaudited £m	Year to March 2024 Audited £m
Surplus before taxation		60.0	71.6	54.6	49.3	62.3	36.1
Depreciation charges	4	189.2	167.6	344.3	187.6	166.7	342.2
Amortisation of intangible asset	5	6.0	8.0	14.7	4.1	6.1	10.8
Amortisation of grants		(1.2)	(1.1)	(2.2)	(0.9)	(1.0)	(2.0)
(Surplus) / Loss on disposal of property, plant and equipment		(1.3)	(0.7)	0.7	(1.3)	(0.7)	0.7
Non cash adjustment for retirement benefit obligations		(0.7)	(0.9)	(10.5)	(0.8)	(1.0)	(10.9)
Finance costs – net		73.0	70.1	138.1	75.6	71.9	142.9
Operating cashflow before changes in working capital and provisions		**325.0**	**314.6**	**539.7**	**313.6**	**304.3**	**519.8**
Changes in working capital and provisions:							
Decrease / (increase) in receivables		39.7	3.1	(29.9)	44.3	27.6	(12.2)
Increase in inventories		–	(0.1)	(0.4)	–	(0.1)	(0.3)
(Decrease) / increase in payables		(10.9)	33.6	28.4	(5.4)	37.0	31.2
Increase in provisions		6.0	4.5	2.2	3.6	6.3	6.5
Cash flows from operating activities		**359.8**	**355.7**	**540.0**	**356.1**	**375.1**	**545.0**
Taxation paid		(3.3)	(3.0)	(5.9)	–	–	–
Net cash generated from operating activities		356.5	352.7	534.1	356.1	375.1	545.0
Cash flows from investing activities							
Purchase of property, plant and equipment		(402.7)	(361.9)	(702.5)	(400.5)	(357.2)	(694.1
Proceeds on sale of property, plant and equipment		1.4	1.3	2.4	1.4	1.2	2.5
Purchase of intangible asset		(0.7)	(13.6)	(13.6)	(0.7)	(13.6)	(13.6)
Government grant income received		1.8	0.3	6.6	1.8	0.3	6.5
Infrastructure income receipts		6.0	8.1	13.3	6.0	8.1	13.3
Net cash used in investing activities		(394.2)	(365.8)	(693.8)	(392.0)	(361.2)	(685.4)
Cash flows from financing activities							
Repayments of loans	7	(55.7)	(62.4)	(137.1)	(55.7)	(62.4)	(137.1)
Proceeds from borrowings	6	–	–	332.8	–	–	332.8
Interest received		6.8	6.6	15.1	5.1	5.7	12.7
Interest paid		(79.2)	(76.8)	(153.5)	(80.2)	(77.7)	(155.7)
Payment of finance lease liabilities		(13.5)	(11.2)	(22.4)	(13.1)	(11.1)	(22.4)
Net cash (used in)/generated financing activities		(141.6)	(143.8)	34.9	(143.9)	(145.5)	30.3
Net decrease in cash and cash equivalents		**(179.3)**	**(156.9)**	**(124.8)**	**(179.8)**	**(131.6)**	**(110.1)**
Cash and cash equivalents – opening balance	7	362.1	486.9	486.9	280.2	390.3	390.3
Cash and cash equivalents – closing balance	7	**182.8**	**330.0**	**362.1**	**100.4**	**258.7**	**280.2**

The notes on pages 39 to 53 form an integral part of the condensed consolidated and company interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED AND COMPANY INTERIM STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2024

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.

The condensed consolidated and company interim financial information was approved by the Board on 4 December 2024. The condensed consolidated and company interim financial information is unaudited but has been reviewed by the Auditor. The Auditor's review report is set out on page 32. These condensed consolidated and company financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2024, were approved by the Board on 26 June 2024 and laid before the Scottish Parliament. The report of the auditors on those accounts was unqualified.

1.2 Basis of preparation

The condensed consolidated and company interim financial information for the six months ended 30 September 2024 has been prepared in accordance with IAS 34 'Interim Financial Reporting'. The condensed consolidated and company interim financial information is presented on a condensed basis as permitted by IAS 34 and therefore does not include all disclosures that would otherwise be required in a full set of financial statements. Consequently, this report should be read in conjunction with Scottish Water's annual financial statements for the year ended 31 March 2024 which were prepared in accordance with UK-adopted and endorsed International Financial Reporting Standards (IFRSs) 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 adapted and interpreted by the Government Financial Reporting Manual (FReM).

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

1.3 Going concern

The condensed consolidated and company interim 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.

1.4 Accounting estimates and judgements

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 the Group's accounting policies. Full disclosure of accounting policies can be found in the **Annual Report and Accounts for the year ended 31 March 2024**.

1.5 Significant accounting policies

These financial statements have been prepared in accordance with accounting policies expected to be followed for the year ending 31 March 2025. The accounting policies, as set out in the Annual Report and Accounts for the year ended 31 March 2024, have been applied consistently to all the periods presented.

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1 Accounting policies (continued)

1.6 New standards and interpretations

IFRS 16 Leases came into effect for financial periods beginning on or after 1 January 2019 for the subsidiary companies and is effective for Scottish Water from 1 April 2024. The modified retrospective approach has been applied and therefore comparative information has not been restated. As a practical expedient on transition to IFRS 16, only contracts that were previously identified as a lease have been reassessed.

The company and the group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. Lease payments associated with these leases have been recognised as an expense on a straight-line basis over the period of the 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 and 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 using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful life is determined on the same basis as for property, plant and equipment.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate is not readily available, the incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. It is 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 to the assessment of whether an option to purchase, terminate or extend will be exercised.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

2 Group and Company Segmental analysis

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

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

INTERIM REPORT AND ACCOUNTS FOR THE SIX MONTHS TO 30 SEPTEMBER 2024

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2 Group and Company Segmental analysis (continued)

	Group			Company		
	Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m	Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m
Revenue						
Scottish Water regulated water and waste water services	789.5	721.8	1,446.3	789.5	721.8	1,446.3
Business Stream	357.1	346.8	676.2	–	–	–
Scottish Water non-regulated activities	11.0	10.3	20.6	1.3	1.6	2.9
	1,157.6	1,078.9	2,143.1	790.8	723.4	1,449.2
Less Intercompany elimination	(114.7)	(105.7)	(208.2)	–	–	–
	1,042.9	**973.2**	**1,934.9**	**790.8**	**723.4**	**1,449.2**
Operating Costs						
Scottish Water regulated water and waste water services	(664.5)	(587.6)	(1,267.1)	(664.5)	(587.6)	(1,267.1)
Business Stream	(350.0)	(340.4)	(663.9)	–	–	–
Scottish Water non-regulated activities	(10.1)	(9.2)	(19.4)	(1.4)	(1.6)	(3.1)
	(1,024.6)	(937.2)	(1,950.4)	(665.9)	(589.2)	(1,270.2)
Less Intercompany elimination	114.7	105.7	208.2	–	–	–
	(909.9)	**(831.5)**	**(1,742.2)**	**(665.9)**	**(589.2)**	**(1,270.2)**
Operating surplus						
Scottish Water regulated water and waste water services	125.0	134.2	179.2	125.0	134.2	179.2
Business Stream	7.1	6.4	12.3	–	–	–
Scottish Water non-regulated activities	0.9	1.1	1.2	(0.1)	–	(0.2)
	133.0	**141.7**	**192.7**	**124.9**	**134.2**	**179.0**
Total assets						
Scottish Water regulated water and waste water services	8,461.2	8,209.2	7,943.3	8,499.2	8,246.9	7,981.5
Business Stream	266.0	269.4	258.5	–	–	–
Scottish Water non-regulated activities	90.9	72.8	89.5	0.4	0.3	–
	8,818.1	**8,551.4**	**8,291.3**	**8,499.6**	**8,247.2**	**7,981.5**

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2 Group and Company Segmental analysis (continued)

An analysis of revenue by geographical location of customers is provided below:

Group	Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m
Revenue			
United Kingdom	1,042.8	973.1	1,934.6
Rest of the world	0.1	0.1	0.3
	1,042.9	**973.2**	**1,934.9**

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

3 Taxation

The effective tax rate for the six months to September 2024 was 27.2% (2023: 26.1%). Analysis of the tax charge recognised in the income statement is as follows:

Group		Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m
Current tax:	UK corporation tax	3.4	2.4	5.6
	Adjustment in respect of prior years	–	–	0.5
		3.4	2.4	6.1
Deferred tax:	Origination and reversal of timing differences			
	– Current year	12.9	16.3	14.5
	– Prior year	–	–	(5.3)
		12.9	16.3	9.2
Total taxation charge		**16.3**	**18.7**	**15.3**

Company		Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m
Current tax:	UK corporation tax	–	–	–
Deferred tax:	Origination and reversal of timing differences			
	– Current year	12.4	15.8	13.5
	– Prior year	–	–	(3.8)
		12.4	15.8	9.7
Total taxation charge		**12.4**	**15.8**	**9.7**

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4 Property, plant and equipment

	Specialised operational properties and structures £m	Assets held for sale (SOPS) £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Assets under construction £m	Total £m
Group cost							
At 31 March 2024	3,598.6	8.5	111.4	3,233.7	3,350.3	1,277.6	11,580.1
Adjustment to opening balance for right of use assets at 1 April 2024	1.4	–	13.7	–	5.2	–	20.3
	3,600.0	8.5	125.1	3,233.7	3,355.5	1,277.6	11,600.4
Additions	–	–	–	–	1.7	379.6	381.3
Disposals [1]	(0.4)	–	–	–	(4.9)	–	(5.3)
Reclassifications	21.1	15.3	1.4	37.3	97.3	(173.1)	(0.7)
At 30 September 2024	3,620.7	23.8	126.5	3,271.0	3,449.6	1,484.1	11,975.7
Accumulated depreciation							
At 31 March 2024	1,373.5	0.6	34.5	644.4	2,042.9	–	4,095.9
Charge for the year	45.4	–	1.9	11.8	130.1	–	189.2
Disposals [1]	(0.3)	–	–	–	(4.9)	–	(5.2)
Reclassifications	(9.6)	9.6	–	–	–	–	–
At 30 September 2024	1,409.0	10.2	36.4	656.2	2,168.1	–	4,279.9
Net book value							
At 30 September 2024	2,211.7	**13.6**	**90.1**	**2,614.8**	**1,281.5**	**1,484.1**	**7,695.8**
At 31 March 2024	2,225.1	7.9	76.9	2,589.3	1,307.4	1,277.6	7,484.2

All capital investment is recognised initially within assets under construction. When assets are capable of performing the function for which they were constructed and come into beneficial use, they are reclassified and transferred from assets under construction to the appropriate property, plant and equipment category.

Capital grants received during the year and credited to deferred income were £1.5 million (2023: £0.1 million). 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 six months to 30 September 2024 the amount utilised in relation to infrastructure charges and netted against property, plant and equipment was £8.6 million.

[1] Disposals include the write down of redundant assets no longer in beneficial use.

Assets held for sale

As at the balance sheet date, Scottish Water Horizons Ltd is in the process of selling its Low Carbon Heat schemes and Deerdykes Bioresources Centre, which hold a net book value of £7.9 million and £5.7 million retrospectively as at 30 September 2024. The Low Carbon Heat schemes sale was completed on the 9th October 2024 (as disclosed in note 14 Events after the reporting date) and the sale of Deerdykes Bioresources Centre is expected to be completed within the financial year ending 31 March 2025 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 and fair value; consequently, they have been presented within the financial statements at their book value.

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4 Property, plant and equipment (continued)

	Specialised operational properties and structures £m	Non-specialised operational properties £m	Infrastructure assets £m	Plant, machinery and vehicles £m	Assets under construction £m	Total £m
Company cost						
At 31 March 2024	3,557.6	111.4	3,233.7	3,329.6	1,270.9	11,503.2
Adjustment to opening balance for right of use assets at 1 April 2024	1.4	8.5	–	4.9	–	14.8
	3,559.0	119.9	3,233.7	3,334.5	1,270.9	11,518.0
Additions	–	–	–	1.2	378.3	379.5
Disposals [1]	(0.4)	–	–	(4.9)	–	(5.3)
Reclassifications	33.0	1.4	37.3	97.3	(169.7)	(0.7)
At 30 September 2024	3,591.6	121.3	3,271.0	3,428.1	1,479.5	11,891.5
Accumulated depreciation						
At 31 March 2024	1,359.8	34.5	644.4	2,022.3	–	4,061.0
Charge for the year	44.5	1.6	11.8	129.7	–	187.6
Disposals [1]	(0.3)	–	–	(4.9)	–	(5.2)
At 30 September 2024	1,404.0	36.1	656.2	2,147.1	–	4,243.4
Net book value						
At 30 September 2024	**2,187.6**	**85.2**	**2,614.8**	**1,281.0**	**1,479.5**	**7,648.1**
At 31 March 2024	2,197.8	76.9	2,589.3	1,307.3	1,270.9	7,442.2

[1] Disposals include the write down of redundant assets no longer in beneficial use.

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 31 March 2024	460.0	460.0
At 30 September 2024	460.0	460.0
Accumulated depreciation		
At 31 March 2024	297.0	297.0
Charge for the year	7.8	7.8
At 30 September 2024	304.8	304.8
Net book value		
At 30 September 2024	**155.2**	**155.2**
At 31 March 2024	163.0	163.0

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4 Property, plant and equipment (continued)

Included within property, plant and equipment are the following right of use assets resulting from lease agreements.

	Note	Specialised operational properties and structures £m	Non-specialised operational properties £m	Plant, machinery and vehicles £m	Other £m	Total £m
Group cost						
At 1 April 2024		1.4	13.7	5.2	–	20.3
Additions		–	–	1.2	–	1.2
At 30 September 2024		1.4	13.7	6.4	–	21.5
Accumulated depreciation						
At 1 April 2024		–	–	–	–	–
Charge for the year	13	–	0.6	1.2	–	1.8
At 30 September 2024		–	0.6	1.2	–	1.8
Net book value						
At 30 September 2024		1.4	**13.1**	**5.2**	**–**	**19.7**
At 1 April 2024		1.4	13.7	5.2	–	20.3

	Note	Specialised operational properties and structures £m	Non-specialised operational properties £m	Plant, machinery and vehicles £m	Other £m	Total £m
Company cost						
At 1 April 2024		1.4	8.5	4.9	–	14.8
Additions		–	–	1.2	–	1.2
At 30 September 2024		1.4	8.5	6.1	–	16.0
Accumulated depreciation						
At 1 April 2024		–	–	–	–	–
Charge for the year	13	–	0.3	1.1	–	1.4
At 30 September 2024		–	0.3	1.1	–	1.4
Net book value						
At 30 September 2024		**1.4**	**8.2**	**5.0**	**–**	**14.6**
At 1 April 2024		1.4	8.5	4.9	–	14.8

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5 Intangible asset

Investment intangible assets relate to the acquisition of the non-household customer base of Southern Water Services Limited in April 2017 and, in October 2019, of the non-household customer books of Yorkshire Water Business Services and Three-Sixty, both part of the Kelda Group. The investments are treated as having a finite life and are 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.

Group	Software £m	Investments £m	Total £m
Cost			
At 31 March 2024	87.7	23.2	110.9
Additions in the year	0.7	–	0.7
At 30 September 2024	88.4	23.2	111.6
Accumulated amortisation			
At 31 March 2024	71.8	18.7	90.5
Amortisation charge	4.8	1.2	6.0
At 30 September 2024	76.6	19.9	96.5
Net book value			
At 30 September 2024	**11.8**	**3.3**	**15.1**
At 31 March 2024	15.9	4.5	20.4

Company	Software £m	Investments £m	Total £m
Cost			
At 31 March 2024	81.3	–	81.3
Additions in the year	0.7	–	0.7
At 30 September 2024	82.0	–	82.0
Accumulated amortisation			
At 31 March 2024	69.3	–	69.3
Amortisation charge	4.1	–	4.1
At 30 September 2024	73.4	–	73.4
Net book value			
At 30 September 2024	**8.6**	**–**	**8.6**
At 31 March 2024	12.0	–	12.0

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6 Government borrowing

Government loans, both short and long-term, are recorded on the balance sheet 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.

Scottish Water did not draw down any loans from the Scottish Government during the six months to 30 September 2024. Repayments of Government loans of £55.7 million were made, in line with repayment terms.

7 Analysis of net debt

	As at April 2024 £m	Decrease in cash £m	Decrease in debt £m	As at 30 Sept 2024 £m
Group				
Cash and cash equivalents	362.1	(179.3)	–	182.8
Government loans	(4,704.4)	–	55.7	(4,648.7)
Net debt	**(4,342.3)**	**(179.3)**	**55.7**	**(4,465.9)**
Company				
Cash and cash equivalents	280.2	(179.8)	–	100.4
Government loans	(4,704.4)	–	55.7	(4,648.7)
Net debt	**(4,424.2)**	**(179.8)**	**55.7**	**(4,548.3)**

The movement in cash is summarised below:

	Scottish Water £m	Business Stream group £m	Non Regulated group £m	Total £m
Balance at 1 April 2024	280.2	38.4	43.5	362.1
Government loans repaid	(55.7)	–	–	(55.7)
Cash utilised	(124.1)	0.5	–	(123.6)
Balance at 30 September 2024	**100.4**	**38.9**	**43.5**	**182.8**

The consolidated cash balance as at 30 September 2024 was £182.8 million (2023: £330.0 million).

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8 Pensions

	Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m
Group movement in pension liability in the period			
At start of period	(20.8)	27.1	27.1
Current service cost	(15.7)	(17.1)	(34.3)
Contributions by the Employer	0.1	0.3	27.9
Contributions in respect of Unfunded Benefits	1.0	1.0	6.1
Net finance cost	(0.1)	0.1	0.7
Remeasurement – actuarial losses recognised	(35.8)	(11.4)	(48.3)
At end of period	**(71.3)**	**–**	**(20.8)**
Being:			
Funded Pension asset recognised	2.8	–	55.6
Unfunded Pension Liability	(74.1)	–	(76.4)
Net Pension Deficit	**(71.3)**	**–**	**(20.8)**
Company movement in pension liability in the period			
At start of period	(20.8)	24.6	24.6
Current service cost	(15.4)	(16.7)	(33.3)
Contributions by the Employer	–	–	27.3
Contributions in respect of Unfunded Benefits	1.0	1.0	6.1
Net finance cost	(0.1)	0.1	0.6
Remeasurement – actuarial losses recognised	(36.0)	(9.0)	(46.1)
At end of period	**(71.3)**	**–**	**(20.8)**
Being:			
Funded Pension asset recognised	2.8	–	55.6
Unfunded Pension Liability	(74.1)	–	(76.4)
Net Pension Deficit	**(71.3)**	**–**	**(20.8)**

In the half year to September 2023, the recognised pension surplus of nil was shown as a non-current asset. During 2023/24 it was identified that the unfunded pension liability which has always been recognised by Scottish Water, should not have been netted against the funded asset at September 2023. As such in the half year to September 2023 an unfunded liability of £80.3 million should have been reflected in the non current liability section of the Balance Sheet.

The 2023/24 interim financial statements have not been restated as the balance sheet impact of recognising the unfunded obligation is negligible and the impact on other comprehensive income is not relevant as the actuarial gain or loss does not follow any trends, is subject to market fluctuations and is not a key metric. In addition, there is no cashflow impact or impact on the Income Statement. The impact is not qualitatively material and the detail provided in this note is considered sufficiently informative for users of these financial statements.

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.

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8 Pensions (continued)

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, outlined in note 1.18 – Employee benefit obligations in our Annual Report and Accounts for the year ended March 2024.

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 and discounts these back to their present value.

An actuarial gain of £105.9 million has been calculated resulting in a funded pension asset of £928.7 million at 30 September 2024 and an unfunded liability of £74.1 million. The pension asset is as a result of a higher discount rate than forecast at 31 March 2024, a lower expectation of long term CPI growth and CPI growth in 2024/25 reducing the pension liabilities. Actual asset returns to 30 September 20024 are also higher than the forecast asset return for the 6 month period at 31 March 2024.

The major assumptions used by the actuaries were:

	September 2024 %	March 2024 %
Long term rate of increase in pensionable salaries	2.75	2.80
Rate of increase in pensions payment	2.75	2.80
Discount rate	5.05	4.80
CPI inflation rate	2.75	2.80
Actual asset returns for period from 1 April 2024 to 30 September 2024		
North East Scotland Pension Fund*	2.01	–
Lothian Pension Fund	2.01	–
Strathclyde Pension Fund	2.90	–

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. This has been calculated as £2.8 million in total being £2.8 million in relation to North East Pension Fund for Scottish Water. No asset is recognised in respect of Lothian Pension Fund or Strathclyde Pension Fund for Scottish Water or Scottish Water Business Stream. As such the full pension asset of £928.7 million is not recognised but is restricted to a pension asset of £2.8 million with an actuarial loss of £35.8 million.

In addition an unfunded liability of £74.1 million is recognised as a non current liability.

Any updated measurement of the pension liability is a snapshot in time. The following table illustrates the potential impact of changes in the assumptions:

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Assumption	Change in assumption	Approximate Impact on IAS 19 liability %	Approximate Impact on IAS 19 liability £m
Rate of increase in pensionable salaries	+/- 0.1% per annum	Increase / decrease by c. 0.3%	Increase / decrease c. £4.4m
Discount rate	+/- 0.1% per annum	Decrease / increase by c. 1.7%	Decrease / increase by c. £25.3m
CPI Inflation rate	+/- 0.1% per annum	Increase / decrease by c. 1.5%	Increase / decrease by c. £22.2m
Longevity	Increase life expectancy by 1 year	Increase by c. 3.0%	Increase by c. £43.9m

Virgin Media / section 37 legal ruling. In June 2023, the UK High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment was subject to appeal, and the Court of Appeal heard the arguments on 26 and 27 June 2024. On 25 July 2024, the Court dismissed the appeal.

The Local Government Pension Scheme is a contracted out defined benefit scheme and amendments have been made during the period 1996 to 2016 which could impact member benefits. Work is being performed by the Government Actuary's Department as the Local Government Pension Scheme actuary to assess whether section 37 certificates are in place for all amendments and some of these have been confirmed however, at the date of these financial statements, the full assessment is not complete. Until this analysis is complete, we are unable to conclude whether there is any impact on the assessed actuarial present value of promised retirement benefits under IAS 26. As a result, Scottish Water does not consider it necessary to make any allowance for the potential impact of the Virgin Media case in the disclosure of the actuarial present value of promised retirement benefits in its financial statements.

9 Investment commitments

The Group has contracted investment commitments of £801.1 million (30 September 2023: £665.3 million; 31 March 2024: £747.7 million) relating to property, plant and equipment at the balance sheet date.

10 Related party disclosure

As disclosed in the annual report for the year ended 31 March 2024, the Scottish Water group has related party relationships with the Scottish Government and with its Members and Executive Management.

Scottish Government

During the six months to 30 September 2024, Scottish Water had the following material transactions with the Scottish Government:

	Half year to September 2024 £m	Half year to September 2023 £m	Year to March 2024 £m
Loans repaid	55.7	62.4	137.1
Loans drawndown	–	–	(332.8)
Interest paid	73.8	70.7	140.6

Scottish Water had various material transactions with entities for which the Scottish Government is regarded as the parent. However, under IAS 24 'Related Party Disclosures' paragraph 25, Scottish Water is exempt from the disclosure requirements of IAS 24 paragraph 18 in respect of other government related entities.

11 Financial Instruments

Scottish Water's financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

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.

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12 Other loans and borrowings

	Note	Group Half year to September 2024 £m	Group Half year to September 2023 £m	Company Half year to September 2024 £m	Company Half year to September 2023 £m
Current					
Obligations under finance leases – PFI		22.4	23.0	22.4	23.0
Obligations under finance leases – Other		3.6	–	3.1	–
		26.0	**23.0**	**25.5**	**23.0**
Non current					
Obligations under finance leases – PFI		119.4	141.8	119.4	141.8
Obligations under finance leases – Other		15.9	–	11.7	–
		135.3	**141.8**	**131.1**	**141.8**
Total					
Obligations under finance leases – PFI		141.8	164.8	141.8	164.8
Obligations under finance leases – Other	13	19.5	–	14.8	–
		161.3	**164.8**	**156.6**	**164.8**

PFI – Service concession arrangements

Upon its creation in April 2002 Scottish Water inherited 9 concession contracts which had been entered into with 9 private sector consortia (PFI Cos) by its 3 predecessor authorities (i.e. East of Scotland Water Authority, North of Scotland Water Authority and West of Scotland Water Authority).

During the year ended 31 March 2023 both the Aberdeen and Highland PFI sites were absorbed into the regulated activities of Scottish Water. Scottish Water acts as the client body to the 7 remaining private sector consortia that provide waste water and sludge treatment and disposal services to Scottish Water.

Characteristics of the arrangements

Description

The length of these contracts varies between 25 and 40 years with the longest expiring in October 2040. Under the terms of these contracts the private sector have either upgraded or built new waste water and sludge treatment assets, and, in certain circumstances, network assets (e.g. sewers and pumping stations) in order to meet Scottish Water's legal obligations in respect of the treatment and disposal of these products. These consortia are also responsible for the operation and maintenance of these assets over the lifetime of each contract.

Significant terms

The key terms relate to the basis upon which Scottish Water pays for the services provided by the PFI Cos. The levels of such payments are predominantly dependent upon the volume of waste water and sludge treated, although in a minority of contracts there is either a partial availability payment element or some part of the payment is linked to the strength of the waste water. Scottish Water also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated waste water.

The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

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12 Other loans and borrowings (continued)

Nature and extent of rights and obligations

Scottish Water's primary obligations are to deliver waste water to the PFI Cos and thereafter pay for the treatment services provided, making the appropriate deduction where the PFI Cos fail to meet the appropriate performance standards. The PFI Cos provided the initial construction services through a sub-contract and also entered into a separate sub-contract for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are now in their operational phase.

A majority of the contracts have limited extension options. However, termination during the contractual period can arise for a number of reasons including default (by either the PFI Co or Scottish Water), force majeure, uninsurable events or voluntary termination by Scottish Water. Each contract contains a formula from which termination compensation payable by Scottish Water is derived.

Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes.

The contracts also stipulate a range of handback conditions linked to the remaining life of certain assets.

13 Leases

Under IFRS 16, a lease is defined as a contract or part of a contract that conveys the right to use an asset (the "underlying asset") for a period of time in exchange for consideration. The standard came into effect on 1 January 2019 for the subsidiary companies and has been in effect for Scottish Water since 1 April 2024. IFRS 16 replaces the previous lease accounting standard, IAS 17.

The leases in place for Scottish Water Group include:
– Buildings: offices, warehouse and depots – disclosed in Non-specialised operational properties.
– Vehicles: company cars and vans – disclosed in Plant, machinery and vehicles.
– Other: pumping stations, water and waste water treatment works – disclosed in Specialised operational properties and structures.

a. Right of Use Assets

Disclosed in Note 4

b. Lease Liabilities

The Group has presented lease liabilities within other loans and borrowings – disclosed in Note 12

		Group		Company	
	Note	Half year to September 2024 £m	Half year to September 2023 £m	Half year to September 2024 £m	Half year to September 2023 £m
Within one year		3.6	–	3.1	–
Between one and five years		8.0	–	6.1	–
Over five years		18.8	–	16.4	–
Total undiscounted lease liabilities		30.4	–	25.6	–
Lease libilities included in the statement of financial position at 30 September 2024	12	19.5	–	14.8	–

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13 Leases (continued)

c. Amounts recognised in comprehensive income

The Group has presented interest expenditure on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expenditure on the lease liability is a component of finance costs, which is presented separately in the Income Statement and SOCI.

		Group		Company	
	Note	Half year to September 2024 £m	Half year to September 2023 £m	Half year to September 2024 £m	Half year to September 2023 £m
Finance costs		0.4	–	0.3	–
Depreciation Charges	4	1.8	–	1.4	–
		2.2	**–**	**1.7**	**–**

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 seven leases have classified into these categories with a total value of £153,000 and is shown by category in the table below.

	Group		Company	
	Half year to September 2024 £'000	Half year to September 2023 £'000	Half year to September 2024 £'000	Half year to September 2023 £'000
Expenses relating to short-term leases	130	–	130	–
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	23	–	23	–
	153	**–**	**153**	**–**

14 Events after the reporting period

On 9 October 2024, after the balance sheet date of 30 September 2024, Scottish Water Horizons Ltd completed the sale of the Low Carbon Heat schemes which were classified as an asset held for sale at the balance sheet date of 30 September 2024. The sale resulted in total proceeds of £11.7 million resulting in a surplus on disposal of £3.9 million. The transactions will be disclosed within the financial statements for the year to 31 March 2025.

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