

TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES (TCFD) 2024/25

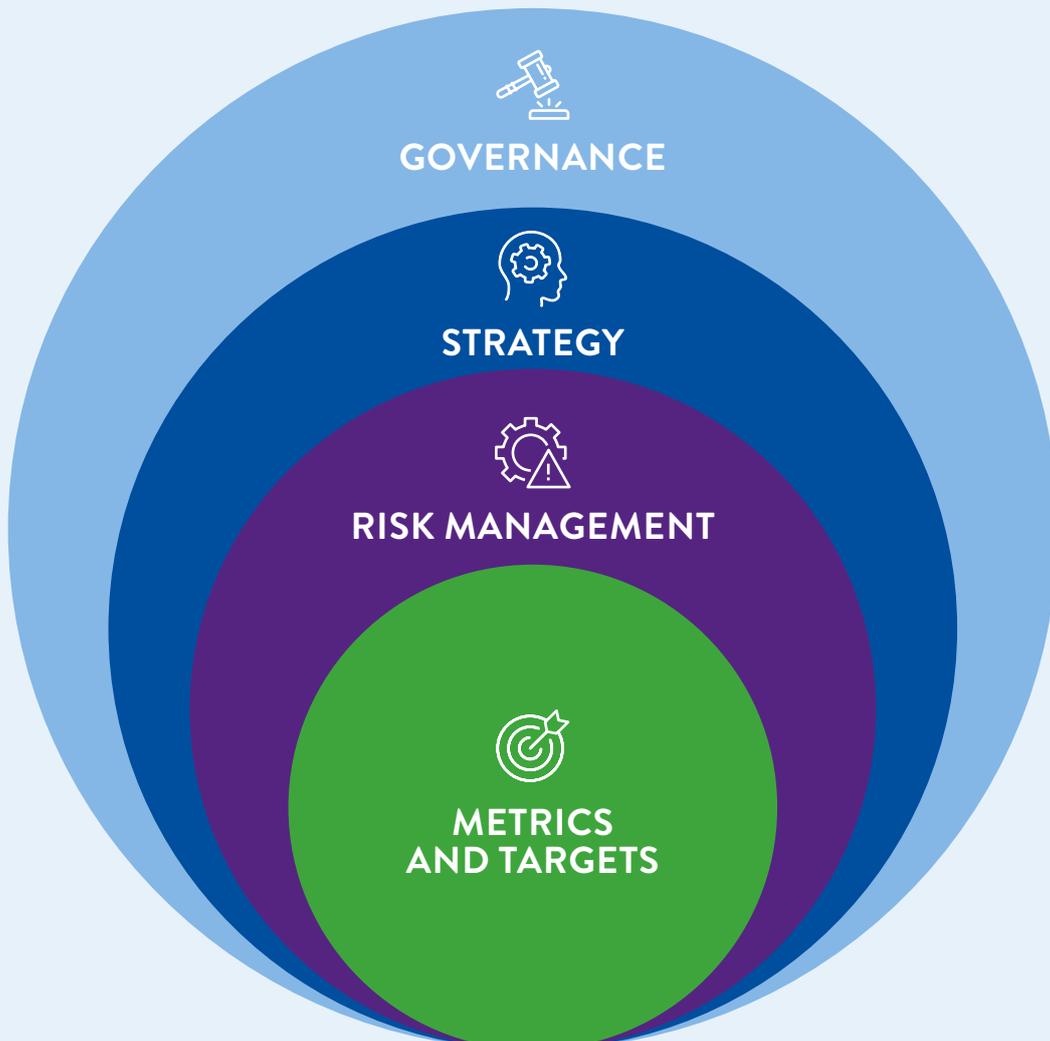
Overview

Scottish Water aims to lead the way in delivering a flourishing Scotland. We are committed to achieving net zero, increasing resource efficiency, adapting our services to climate change and being socially sustainable in everything we do. As such, we fully support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

TCFD requires disclosure of information aligned to its core four elements – governance, strategy, risk management, and metrics and targets. In reporting TCFD, we aim to improve our disclosure of climate-related threats and opportunities and provide stakeholders with the necessary information to undertake robust and consistent analysis of the potential impacts of climate change. We recognise the value that the recommendations bring and we continue to seek to align and enhance our climate-related disclosures.

The environment is integral to everything Scottish Water does; from source to tap and sink to sea, we depend on the Scottish environment to enable us to effectively undertake our essential services. As such, climate considerations are embedded into our everyday activities. Throughout this report we include material that responds to the TCFD recommendations. Our approach is summarised below with links to further information aligned to the four core reporting elements.

TCFD - Core Elements





Ministerial Objectives

Scottish Ministers set objectives for Scottish Water for each regulatory period. For the 2021-27 period Ministers set direction in relation to adaptation to and mitigation of the global climate crisis.

These include:

- Identify the impacts of climate change on our assets;
- Prepare and implement plans for adaptation measures necessary to protect our services;
- Make substantive progress in the 2021-27 period towards the climate change targets set and ensure an appropriate trajectory to meet or exceed those targets;
- Work with customers, communities and the wider industry to support measures that reduce water use in homes and businesses and help ensure that only appropriate items are flushed down the toilet or put down the sink.

Board Oversight

Accountability for climate-related activities resides with the Scottish Water Board. The Board sets the strategy and direction, routinely reviews key activities and monitors timeous and effective progress toward objectives. In doing so, Board members bring a diverse range of skills, expertise and experience spanning a number of sectors and industries.

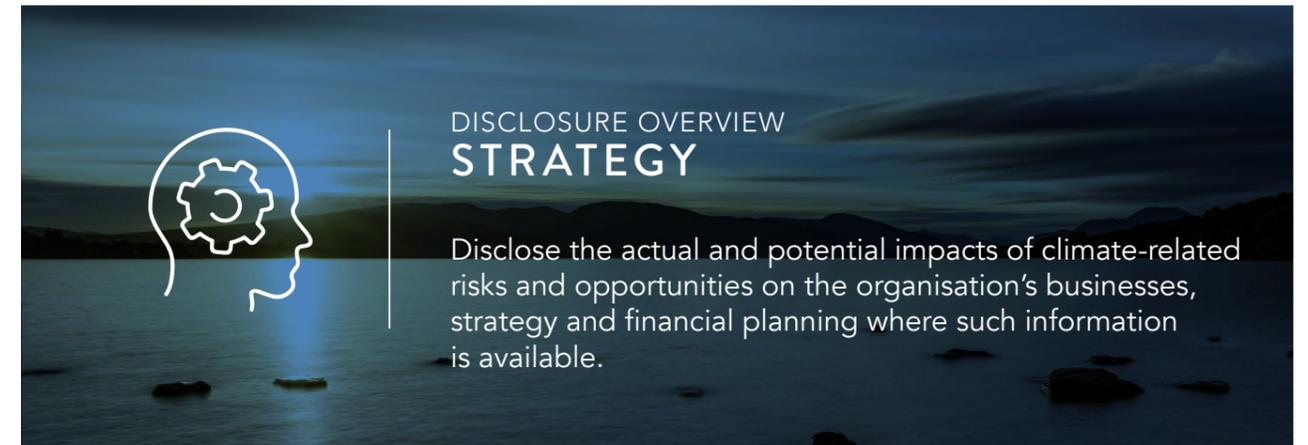
The Audit & Risk Committee considers the key climate-related threats and opportunities to which the organisation may be exposed. The Committee assesses the appropriateness of mitigating strategies and evaluates the effectiveness of internal control systems.

The Remuneration Committee determines executive reward levels which in turn informs associated employee compensation terms. This includes incentive schemes designed to reward out-performance and, as agreed with the Scottish Government in 2020, such schemes incorporate targets for all employees that are directed towards meeting our net zero ambitions.

Role of Management

The Executive Leadership Team is responsible for oversight of climate change activities within Scottish Water, led by the Director of Environment, Planning and Assurance. They are further advised by the General Manager, Zero Emissions.

Since 2010 carbon and climate change considerations have been increasingly built into management and business decisions. Our investment decision-making processes have been updated to consider the cost and carbon impact of options to address an investment need. In developing options, project teams will consider relevant climate risks, for example rainfall levels when sizing reservoir yields or in flooding projects.



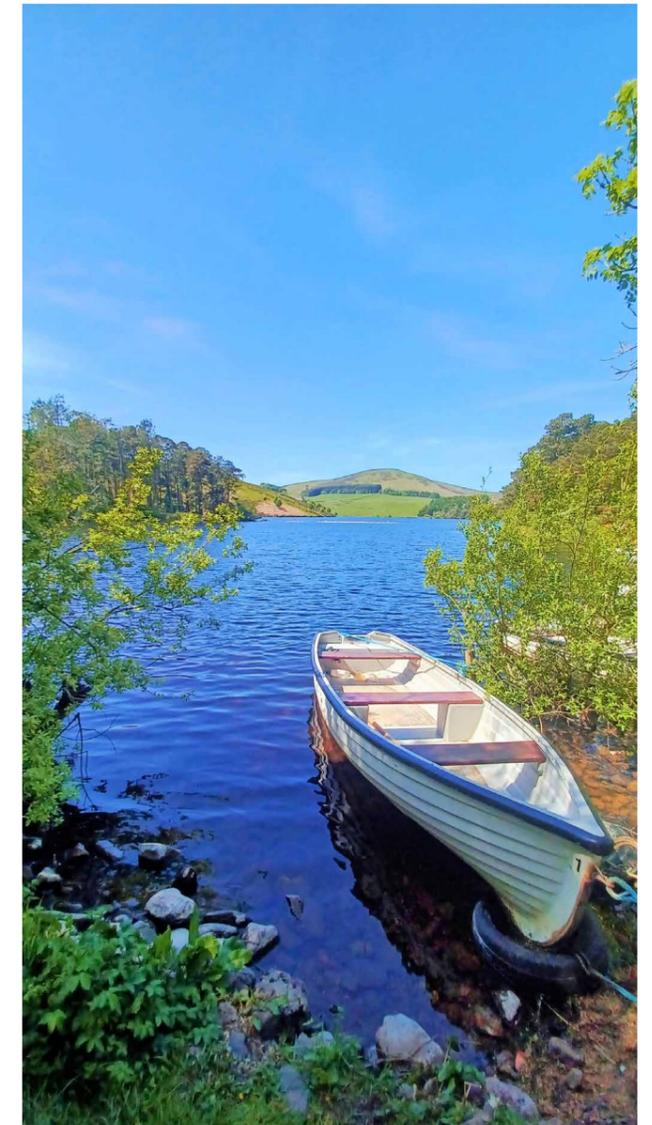
Scottish Water's Strategic Plan, A Sustainable Future Together, outlines Scotland's water sector vision and highlights the considerable challenges faced from the global climate crisis. Our Strategic Plan outlines our ambitions and objectives toward climate change across the next 25 years.

Climate Change Mitigation

The Strategic Plan highlights our strong contribution to Scotland's emissions' reduction. We seek to achieve this through our ambitious plan to secure net zero emissions by 2040 and going beyond that thereafter. Our Net Zero Routemap sets out our approach which includes radical action, transformative change and additional investment.

Climate Change Adaptation

Climate change will impact across the water cycle, from changing the quality of the source waters that we treat to provide drinking water, through to dealing with the extremes of flooding and drought. We have updated our climate change risk assessment following the guidance of the UK Climate Change Committee (CCC) to assess risks across a 2-4 °C warming range by the 2080s. We have explored the impacts to our assets and services of these risks and the investment needed to deliver adaptation. This is outlined in our Climate Change Adaptation Plan.





Corporate Risk Management Process

Scottish Water operates an integrated risk management framework which supports the identification, analysis and management of risks across the business. Climate-related risks are encompassed within this approach. The most significant climate-related risks are documented within Scottish Water’s Corporate Risk Register.

Scottish Water reports its Principal Risks within the Annual Report & Accounts: Performance and Prospects each year, which includes Climate Change risk. It should also be noted that a number of other principal risks can be influenced or exacerbated by climate-related challenges. As part of enhanced TCFD reporting, a subset of risks on Climate Change is provided to enable stakeholders to understand the key areas of threat and opportunity. These risks are representative of current knowledge and concerns.

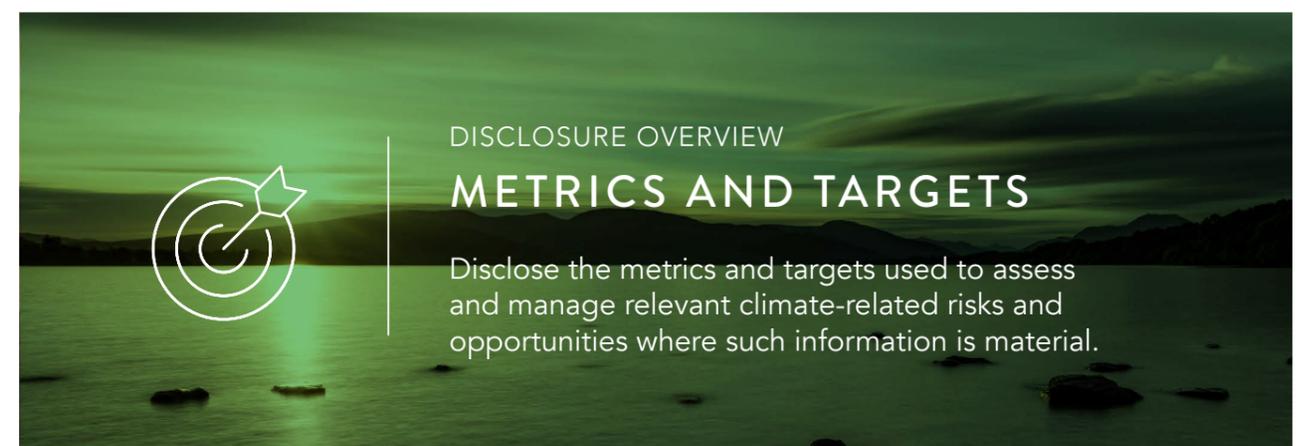
Climate Change Risk Management

Many of our existing processes and activities consider climate-related risks and the management of these as business as usual. For example, asset planning considers the changing environment in which the assets operate and the future performance that may be required. This incorporates both internal and external views of climate risks and the latest modelling available. Following the publication of our Climate Change Adaptation Plan we are updating our Investment Policy and supporting procedures and processes to better support the management of climate change risks.

Business Risk Management Process

In support of the Corporate Risk Management process, detailed climate-related risks are captured within Functional Risk Registers, with operational risk detailed in specialist registers and systems. The requirement to identify and assess climate-related risks is embedded within existing business-as-usual practices, with each business area identifying climate-related risk specific to their objectives.

Overview of aggregate risk and potential areas of compounding is routinely considered, with overarching risks noted within the Zero Emissions Risk Register. Escalation to the Corporate Risk Register may occur from individual risk registers or via the Zero Emissions Risk Register, where appropriate thresholds are met.



Business Performance Metrics & Climate Targets

As part of our quarterly business performance reporting, we detail our journey towards net zero which includes Year to Date actual Operational Emissions Benefit (tCO₂e) against our annual targeted range. These indicators also influence annual out-performance rewards to our people. We have long-term targets to deliver net zero by 2040 and provide updates on progress in both our Annual Report & Accounts: Performance and Prospects and Net Zero Routemap.

Greenhouse Gas Emissions

Scottish Water has reported on both our operational Carbon Footprint (CFP) and Streamlined Energy & Carbon Reporting (SECR) which are UK Government Requirements, in the Net Zero Emissions section of the Scottish Water Annual Report & Accounts 2024/25: Performance and Prospects.



Scottish Water’s emissions are summarised below:

	2024/25 (Tonnes of CO ₂ e)	2006/07 Baseline (Tonnes of CO ₂ e)
Scope 1	40,011	36,008
Scope 2	92,042	279,581
Scope 3	92,803	146,735
Total annual gross emissions*	224,855	462,323

* For 2024/25 we report net operational emissions of 220,434, reflecting 4,421 tonnes CO₂e benefit arising from exporting REGO-backed electricity to the grid.