

M Tables – Regulatory Accounts Commentary

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1. Overview

The financial performance of Scottish Water's regulated activities is measured on a regulatory accounting basis, which includes items subject to a long-term normative charge (LTNC)¹. The following tables and commentary have therefore been presented on that basis. Reconciliations to Scottish Water's performance on a statutory accounting basis is set out in Table M3 (Tier 1 statement to statutory P&L) tables.

The Regulated Income & Expenditure Statement and Capital Investment for the year to 31 March 2026 compared to the Final Determination (FD)² is presented below.

SW Regulated Income & Expenditure Statement	Actual 2025/26 £m	WICS financial model underpinning FD 2025/26 £m	Variance 2025/26 £m	Cumulative variance 21-26 £m
Total revenue	1,754	1,820	(66)	(386)
Regulatory operating costs	(547)	(691)	(24)	5
PFI costs	(168) ³			
Interest charges	(157)	(194)	37	190
Costs before items subject to LTNC⁴	(872)	(885)	13	195
Total available to support investment before LTNC items	882	935	(53)	(191)
Responsive repair & refurbishment costs	(230) ⁵	(286)	56	196
Developer contributions	(36) ⁴	(36)	-	(10)
Tax paid	- ⁴	(6)	6	28

¹ LTNC Items - Responsive repair and refurbishment costs, developer contributions and tax.

² 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.

³ PFI costs have been retained at £168m to maintain consistency with total Tier 1 costs and the reported outperformance position, as alternative rounding would change reported variances without affecting underlying performance.

⁴ Costs before items subject to LTNC in the FD have been amended to include actual outturn cloud computing arrangement costs and Scottish Water non-regulated costs in the year of £27m and £3m respectively. These items are also included within the actual column to ensure like for like comparison.

⁵ The LTNC for responsive repair & refurbishment costs, developer contributions and tax have been revised based on updated trends. This has resulted in an increase of £3 million in developer contributions with responsive repair and refurbishment costs and tax paid unchanged over the period from 2021-27.

Total LTNC Items	(266)	(328)	62	214
Surplus after charging LTNC items	616	607	9	23

Revenue

Revenue for the year at £1,754 million was £66 million lower than anticipated in the FD. Cumulatively, for the first five years of the regulatory period, charges are 7.2% above CPI inflation and 3.2% below the charge path anticipated in the FD. Consequently, revenue, on a cumulative basis since the start of the regulatory period, was £386 million lower than that anticipated in the FD. Charges in the FD were based on CPI inflation plus 2% per annum but charge increases for 2025/26 were higher at 9.9%, 7.6% higher than the October 2024 CPI inflation of 2.3% to continue realigning charges with the cumulative CPI + 12.6% increase published in the FD for the 6-year period.

Operating Costs, PFI and Interest charges

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

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

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

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.

Responsive repair and refurbishment expenditure is difficult to predict over a short-term time horizon with volatility driven by the incidence of significant water main bursts or collapsed sewers. An LTNC has been applied to remove annual variability with the overall control that the LTNC allocation will balance with actual expenditure incurred over the 2021-27 period.

Actual regulatory expenditure in the year for responsive repairs and refurbishment was £257 million compared to the LTNC charge for the year of £230 million, which itself was £56 million lower than the FD assumption of £286 million. Cumulatively, the LTNC for responsive repairs and refurbishment was £196 million lower than the level assumed in the FD. In the year our LTNC has remained at £230 million to align with our forecast for the 2021-27 period.

Developer contributions and taxation also experience significant annual variability and hence we have adopted a similar normative charge approach for these with normative charges of £36 million per annum for developer contributions and nil per annum for tax paid. The normative charge for developer contributions has increased to reflect increased demand, particularly with the current expansion in Perth and taxation has remained at the 2024-25 level.

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

Over the 2026-27 period rebasing of LTNCs will be required to reflect actual expenditure trends and up-to-date forecasts. These updates will continue to be highlighted within interim and annual reports.

Surplus to support planned investment

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

Capital Investment

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

Investment on a regulatory accounting basis	Actual 2025/26 £m	Final Determination 2025/26 £m	Inc/(dec) 2025/26 £m	Cumulative inc/(dec) 21-26 £m
Planned investment	868	809	59	213
Responsive repair & refurbishment costs	257	286	(29)	(232)
Total	1,125	1,095	30	(19)

Prospects for 2026/27

We remain committed to deliver our Strategic Plan, increase investment to replace our ageing assets, achieve our net zero ambitions and take all possible steps to drive for further efficiency to provide great value for customers by targeting at least a 1% year-on-year real reduction (CPI-1%) in costs before items subject to LTNC in line with the challenging target set in the FD. As part of this approach, we remain focused on the pressure on delivery that the growing investment can lead to, as well as cost pressures in the supply chain.

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

SW Regulated Income & Expenditure Statement	Plan 2026/27 £m	WICS financial model underpinning FD 2026/27 £m ⁶	Inc/(dec) 2026/27 £m	Cumulative Inc/(dec)
Total revenue	1,911	1,937	(26)	(412)

⁶ The FD allowances prospects for 2026-27 were updated to reflect forecast CPI inflation of 3.4% per the April MPC Report published by the Bank of England.

Regulatory operating costs	(588)	(701)	(15)	(9)
PFI operating costs	(128)			
Interest charges	(169)	(200)	31	220
Costs before items subject to LTNC	(885)	(900)	15	211
Total available to support investment before LTNC items	1,026	1,037	(11)	(201)
Responsive repair & refurbishment costs	(230)	(289)	59	259
Developer contributions	(36)	(36)	-	(8)
Tax paid	-	(6)	6	33
Total LTNC Items	(266)	(331)	65	284
Surplus after charging LTNC items	760	706	54	83

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

Costs for 2026/27, before items subject to LTNC, are currently anticipated to outperform by £15 million. The slight increase from 2025/26 in outperformance reflects an improvement in operating and PFI costs mainly due to the transition of Daldowie and Dalmuir PFI schemes into SW ownership, partially offset by continued inflationary pressures on our operating and PFI costs, and continued lower net interest charges. Final outperformance also depends upon the rate of UK CPI over the remaining months of the financial year.

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

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

2. Introduction

SW produces statutory consolidated accounts incorporating the results of all subsidiary companies. The consolidated statements also include the income statement, balance sheet and cash flow (and relevant notes) for SW only ('company'). Reconciliations between the statutory accounts and the regulatory tables are detailed in Table M3 and are also included in table M27a and M28a.

M Table financial information is for SW company only (i.e. excluding all subsidiaries) and is analysed between Core and Non-Core where required. The exceptions to this are tables M18W and M18WW (explained in section 4) and tables M27a and M28a. Following the issuance of new M table templates and updated Regulatory Accounting Rules (RARs) during 2024/25, all activities carried out by the SW legal entity are now reported as core activities throughout the tables. New activities will continue to be assessed as they arise. No new activities were engaged in during the year.

The M Tables have been completed using historical cost information, except for the addition of current cost non-current assets and an economic depreciation charge within tables M4, M5 and M32.

3. Commentary – Tables M1 to M32

The commentary provided in this section for individual tables explains significant year-on-year movements or provides additional guidance on how the information was obtained and/or calculated. There are no comments on the tables which are self-explanatory.

Table M1 (SRC21) – Tier 1 Income and Cost Statement

Table M1 (SRC21) represents the Tier 1 income and cost statement, consistent with the financial commentary of Scottish Water's Performance and Prospects Report for 2025/26.

Total revenue excluding infrastructure charges income and disposal proceeds (line M1.4) increased £158m or 10% to £1,738m (2024-25: £1,580m). This mainly reflects the charge increase in the year of 9.9% and new connections to services.

Infrastructure charges (line 1.5) increased £1.3m or 10% to £14.2m (2024-25: £12.9m) reflecting more demand in the year. Disposal proceeds (line 1.6) reduced £0.4m or 17% to £1.9m (2024-25: £2.3m) mainly reflecting the disposal of redundant plant, machinery and vehicles during the year which fluctuates year-on-year.

Net new borrowing (line M1.8) remained at £170m (2024-25: £170m). Net new borrowing in the year reflects the borrowing level per the original Final Determination of £170m.

Total operational and responsive maintenance costs before interest and tax (line M1.14) increased £8m or 1% to £1,012m. Each of the key lines and variances are explained in further detail below:

- Operating expenditure (line M1.10) increased £36m or 7% to £547m (2024-25: £511m) mainly reflecting an increase in employment costs (through a combination of our new pay and grading structure, employer NI increases effective from 6 April 2025 and additional headcount compared to the prior year), increased electricity costs, and additional costs associated with the change in pensionable pay definition.
- PPP costs (Line M1.11) decreased by £1m or 1%, to £167m (2024-25: £168m) mainly reflecting inflationary impacts on PFI contracts which broadly increase by RPI inflation annually, offset by fluctuations in underlying contract volume drivers, and one-off impacts
- Responsive repair and refurbishment (Line M1.12) decreased by £20m or 7% to £257m (2024-25: £277m) driven by careful management of project promotion and restrictions around out of hours working, tankering and traffic management costs.
- Reasonable cost contributions (RCC), line M1.13, decreased by £7m or 15% to £40m (2024-25: £47m) reflecting the expansive development in Perth (Bertha Park) nearing completion and continued focus on the standard of vested assets.

Net interest charges (line M1.15) increased £15m or 11% to £157m (2024-25: £142m). The increase was driven by a combination of higher interest charges associated with higher debt levels and a reduction in interest receipts due to lower levels of cash on deposit.

Taxation (line M1.16) in the year reflects a group tax relief claim of £5m, down £11m or 69% on 2024-25 which reflected a one-off tax refund received from HMRC due to enhanced capital allowances of 100% first year capital allowance applying to expenditure on new plant and machinery and the new 50% first year special rate allowance on long-life assets.

Memo lines 1.22 to 1.26 provide a like-for-like comparison of Operating costs on an SR15 basis with line M1.23 showing the amount of expenditure, which prior to 2021-22, will have been recognised as operating expenditure, and lines M1.24 and M1.25 showing amounts that would not have been previously recognised as operating expenditure prior to the January 2025 update to the RARs.

A reconciliation to the statutory income statement is presented in Table M3.

Table M1 (SRC27) – Tier 1 Income and Cost Statement

Table M1 (SRC27) represents the Tier 1 income and cost statement as per table M1 (SRC21) detailed above, except for the removal of Responsive repair and refurbishment costs; Reasonable cost contributions (RCC); and the inclusion of Repair costs (line M1.13) on a regulatory basis as reported in the G tables (line G1.52).

Repairs costs (line M1.13) increased by £23m or 7% to £312m (2024-25: £335m) due to careful management of project promotion and restrictions around out of hours working, tankering and traffic management costs.

Memo lines 1.19 to 1.25 enable comparison on a like-for-like basis of revenue and operating costs prior to the impact of the updated RARs and tables. The values presented show cloud arrangement costs and the revenues and costs from activities previously regarded as non-core.

Table M3 (SRC21) – Tier 1 Income and Cost Statement – Reconciliation to Statutory Accounts

Table M3 (SRC21) reconciles the regulatory Tier 1 income and costs (Table M1(SRC21)) to the SW's statutory income statement. The adjustments in Table M3 reflect:

- the inclusion of depreciation and amortisation charges (line 3.11 to 3.13);
- the removal of balance sheet and cash flow items generally associated with capital investment in lines 3.4, 3.5, and 3.10;
- the capitalisation of refurbishment expenditure, the timing of regulatory and statutory repairs recognition (reflected in column G), and the expensing of planned repair costs (line 3.9);
- IFRS adjustments relating to pension costs (IAS 19), PFI costs (IFRIC 12), Leases (IFRS16) and the tax charge, including deferred tax.

Table M3 (SRC27) – Tier 1 Income and Cost Statement – Reconciliation to Statutory Accounts

Table M3 (SRC27) reconciles the regulatory Tier 1 income and costs (Table M1(SRC27)), following the change to RARs during 2024/25 and alignment to the joint financial model, to the SW's statutory income statement. The adjustments in Table M3 reflect:

- the inclusion of depreciation and amortisation charges (line 3.10 to 3.12);
- the removal of balance sheet and cash flow items generally associated with capital investment in lines 3.4 and 3.5;
- The timing of regulatory and statutory repairs recognition (reflected in column G) of line 3.9;
- IFRS adjustments relating to pension costs (IAS 19), PFI costs (IFRIC 12), Leases (IFRS16) and the tax charge, including deferred tax.

Table M4 and M4b – Regulatory Accounts Income and Expenditure

Table M4 is a regulatory accounting P&L that reflects regulatory accounting information with economic depreciation based on Modern Equivalent Asset Values (MEAV) (rather than based on historic cost), responsive and planned repair costs (line 4.4) aligned to regulatory investment tables but excludes the majority of IFRS adjustments.

The majority of lines are populated from information presented in Table M1 and M3. All current cost adjustments have been calculated on a MEAV basis as agreed with WICS, and as per table M32.

Lines M4.1, M4.2, M4.3, M4.4 and M4.10 have been explained earlier in the commentary under Table M1. The remaining lines are explained in turn below:

Economic depreciation (Line M4.5) has been calculated in table M32, which uses gross MEAV and the average useful life of assets. To ensure alignment with the MEAV methodology used in the preparation of Table H, the average useful life of assets has been adjusted to reflect those assets which are deemed to have infinite lives. The MEAV adjustment in 2025-26 increases depreciation charges of £385m shown in lines M3.10 and M3.11 of table M3 (SRC27) by £397m to £782m (2024-25: £753m). The increase in the year of £29m mainly reflects an increase in the gross MEAV as per Table H.

Profit or loss on disposal (line M4.9) represents the disposal proceeds shown in Table M1 (SRC27) (line M1.11) less the remaining net book value, on a historic cost basis, of assets disposed.

Taxation shown in lines M4.12 and M4.13 shows the split of the tax charge shown on Table M3 (SRC27) excluding adjustments to tax relating to IFRS pension adjustments (Line M3.17) between current and deferred tax.

Revaluation gains and losses (Line 4b.4) shows the movement in the MEAV adjustment to Tangible assets presented in Table M5. This has been presented within other comprehensive income to be consistent with revaluation gains and losses under IFRS accounting to create a current cost reserve in Table M5. However, this adjustment should not be confused with revaluation.

Table M5 – Regulatory Accounts Balance Sheet

Table M5 is a regulatory accounting Balance Sheet that reflects regulatory accounting information (excluding IFRS adjustments) using MEAV rather than historic cost and the inclusion of a cumulative replacement deficit/surplus reflecting economic depreciation, as calculated in table M32.

Tangible Assets (Line 5.1) and Current cost reserve (Line 5.26), represent MEAV adjusted values as explained in the M4 commentary above.

Working Capital and other creditors (line M5.4 and M5.16) are linked to Table M11. Commentary for M11 is found below.

Cash balances (M5.5 and M5.6) decreased £71m to £65m (2024-25: £136m). The reduction in cash reflects a net cash outflow of £242m, due mainly to planned investment programme spending, offset by net new borrowing from the Scottish Government of £170m.

Income and expenditure (Line 5.25) has increased £106m to £1,843m (2024-25: £1,737) reflecting the profit retained in line M4.18 of negative £291m and adding back the economic depreciation adjustment compared to historic cost depreciation of £397m outlined in the M4 and M4b commentary.

Cumulative replacement deficit/surplus (Line 5.21) is the difference between calculated economic depreciation and asset replacement investment. The cumulative replacement deficit has increased £429m to £803m reflecting the difference between economic depreciation in the year of £782m and asset replacement investment of £353m. Economic depreciation reflects the high of the long-term sustainable replacement range of £478m to £753m

The current cost reserve (line 5.26) has increased £3,638m reflecting the revaluation gains and losses reported in line M4b.4 less the MEAV adjustment to depreciation outlined above.

Table M6a – Regulatory Investment

Table M6a details regulatory investment by intervention type and the required adjustments to reconcile investment on regulatory basis to the statutory basis. Cloud computing arrangement costs of £27m are excluded from table M6a following the update to the regulatory accounting rules and are now reported as part of Operating costs in table M1. Regulatory investment has been crosschecked against the G tables to ensure alignment, and a reconciliation is provided in the table

below. To capture total gross investment including reasonable cost contributions, expenditure on inspections and testing (G1.51) is included within the line M6a.3.

Investment Category	M6a Ref	G1 Ref	M6a	G1	Diff	Notes
Reasonable cost contributi	M6a.1	G1.81 G1.82	39.7	12.5 27.2	-	
Repairs	M6a.2	G1.52	312.4	312.4	-	
Refurbishment	M6a.3	G1.51 G1.53	142.3	40.6 101.7	-	
Asset replacement	M6a.4	G1.54	352.4	376.5	(24.1)	M6a excludes cloud costs
Growth	M6a.5	G1.55	61.5	61.5	-	
Enhancement	M6a.6	G1.56	242.4	245.7	(3.3)	M6a excludes cloud costs
Completion	M6a.7	G1.57	14.4	14.4	-	
Total gross spend	M6a.8	G1.83	1,165.1	1,192.5	(27.4)	M6a excludes cloud costs
Third party contributions	M6a.9	G1.85	(6.1)	(6.1)		
Insurance recoveries	M6a.10	n/a	-	-		
Total net spend	M6a.11	n/a	1,159.0	1,186.4	(27.4)	M6a excludes cloud costs

Total gross spend (line M6a.8) excludes cloud computing arrangement costs of £27m, as explained above, in comparison to the G tables (line G1.83).

Table M6 – Regulatory Income and Expenditure and Cash Flow

Table M6 is a regulatory cash flow that aligns to the regulatory current cost P&L (Table M4) and the regulatory current cost Balance Sheet (Table M5). It includes a reconciliation to the 'Net cash flow from operating activities' (line 6.9) from the operating profit in M4.8.

Interest paid (line 6.11) of £160m includes intercompany interest paid to Business Stream of £3.5m and £2.1m to 3rd party LPs in relation to the settlement of wholesale billing and reconciliation process. The interest paid has been offset by interest income of £4m reflecting increased interest income from funds on deposit due to higher interest rates.

The total capital expenditure has been separated into component parts across lines 6.15 to 6.22. The tables below provide the detail and the reconciliation of the total capital investment to lines 6.14 to 6.22:

	M Table / line ref	2024/25 £m	2025/26 £m
Opening short term capital creditor	M11.12	138.4	127.7
Add: Capital investment (net of contributions)		1,134.1	1,159.1
Add: Group asset purchase - SW Grampian		-	-
Less: Responsive and planned repairs		(342.6)	(327.3)
Closing short term capital creditor	M11.12	(127.7)	(127.7)
=>			
Capital expenditure		802.2	831.8
Analysed:			
Reasonable cost contributions	M6.15	39.9	28.7
Refurbishment	M6.16	147.1	142.3
Asset replacement	M6.17	379.8	352.5
Growth	M6.18	62.7	61.6
Enhancement	M6.19	163.4	238.4
Completion	M6.20	14.9	14.4
Third party contributions	M6.21	(5.6)	(6.1)
Insurance recoveries	M6.22	-	-
Capital expenditure (total)		802.2	831.8

Capital investment (net of contributions) is analysed further in the table below.

	Responsive repair and refurbishment (line M1.12)	277.3	257.2
	Tier 2 investment (Per M8 commentary below)	815.6	868.2
	Developer contributions (Line M1.13)	46.8	39.7
Less:	Contributions	(5.6)	(6.1)
	Capital investment (net of contributions)	<u>1,134.1</u>	<u>1,159.0</u>

Table M6R – Regulatory Accounts – Ratio information

This table provides all the information for, and calculation of, the basic ratios in one place. The ratios calculated in Table M6R are the clean calculation using the actual financial information, with all figures referenced from the relevant M Tables.

Table M7 – Analysis of Turnover and Operating Income

Table M7 analyses regulatory income between water and wastewater.

Turnover from services supplied to household customers increased by £123m or 11% to £1,276m (2024-25: £1,153m) (line M7.1) reflecting the increase in household charges of 9.9% for both water and wastewater services, effective from 1 April 2025, and the net increase in properties connected to the network. The additional lines (lines M7.17 – M7.20) provide detail on the movements in household revenue.

Turnover from wholesale services provided to Licensed Providers increased by £34m or 8% to £444m (2024-25: £411m) (line M7.3) reflecting tariff increase of 9.9% (shown in M7.21) for both water and wastewater services and additional revenue generated from GAP sites. The additional lines (lines M7.21 – M7.26) provide a further analysis of the year-on-year movements in wholesale revenue.

Turnover from other sales increased £1m or 9% to £17m (2024-25: £16m) (line M7.7), which includes £3m of revenue that would have previously been classified as non-core prior to the January 2025 RAR update.

Cash receipts in respect of infrastructure charges increased by £1m or 10% to £14m (2024-25: £13m) (Line M7.10) reflecting increased developer demand in the year. Disposal proceeds were also mainly in line with the prior year at £2m as explained in M1 commentary above (line M7.11).

Table M8 – Movements in Cash Balance

Table M8 compares the financial flows delivered in the year to those in the Final Determination updated for inflation (and the closing position in 2020-21) and reconciles movements from the closing Final Determination cash position to the closing actual cash position of Scottish Water at 31 March 2026.

The Final Determination model has been updated consistent with prior year, with the inclusion of cloud arrangement costs and previously classified non-core income and expenditure at the 2025-26 level of £27.4m, £2.7m and £2.7m respectively, and reflects:

- the 2020-21 closing position for household, wholesale and other revenue;
- the 2020-21 closing position for cash (less SR15 completion);
- CPI inflation of 3.44% for 2025/26; and
- price increase of 9.9% based on a preceding October CPI of 2.3% for 2024/25.

The updated Final Determination model has then been compared to actual reported Tier 1 performance (as per Table M1), planned investment (Tier 2) performance (as set out in the Overview

Commentary in section 1 above) and net new borrowing (as per Table M29) in 2025-26. Closing cash per the updated Final Determination model, actual closing cash and Tier 2 expenditure have been reported excluding SR15 completion costs to allow for a like-for-like comparison to the Final Determination:

- Closing cash per the Final Determination is reported as £65m, being £429m reported 2020-21 closing cash position, less £291m of SR15 completion costs, less £73m of cash utilisation as per the Final Determination model.
- Scottish Water closing cash is reported as £32m, being £65m closing cash reported on Table M5, lines M5.5 and M5.6, less remaining SR15 completion costs of £33m.
- Tier 2 investment in the year was £868m including completion costs of £14m. So, excluding completion Tier 2 investment was £854m compared to modelled FD Tier 2 investment of £809m for 2025-26.

Our updated Final Determination model and working file is included as part of our annual return submission and is summarised in the table in the overview section.

Working capital movements reflect the difference between the Tier 1 statement, Tier 2 investment, and the total cash movement in the year. It should be noted that the working capital movement in table M8 is not equivalent to the working capital movement in M11. This is because M8 compares the Tier 1 and Tier 2 movements on an accruals basis against the Final Determination which is on a purely cash basis. M11 however, compares the movement in balance sheet balances from 2024-25 to 2025-26. The basis of the calculation used is consistent with prior years. The Working capital movement of £30m mainly reflects an increase in closing trade creditors at the year end.

Timing Impacts (cols G to J) arise where cash inflows/outflows are expected to be utilised/recovered during a future year of the regulatory period relative to the updated Final Determination model. Timing differences for LTNC items are shown as the expected LTNC level less the actual performance in the year and are combined with any prior period adjustments when the LTNC level changes to reflect the latest forecast view. This is summarised in the table below and reflect the values presented in the overview in section 1:

LTNC item	LTNC	Actual	Timing	Prior Years Adj	Total Timing Adj
Responsive repair and refurbishment	230	257.2	27.2	-	(27.2)
Developer contributions	36	39.7	3.7	4.6	8.3
Tax paid	-	(5.3)	(5.3)	-	(5.3)

The borrowing timing adjustment is calculated as the difference between the borrowing received in the year compared to the borrowing levels outlined in the Final Determination financial model. The increased borrowing in the year is explained in the M1 commentary above.

The Tier 2 investment timing adjustment is calculated as total Tier 2 investment of £868m less SR15 completion costs in the year of £14m, giving £854m of SR21 Tier 2 investment. When compared to Tier 2 investment per the updated Final Determination of £809m the timing impact equates to £45m.

Actual closing cash at 31 March 2026 was aligned to the FD model at £65m and is reconciled below:

**Reconciliation: closing cash v Final Determination at
31 March 2026**

	£m
Closing Cash Balance at Mar-26	64.9
FD closing cash at Mar-26	64.6
Higher / (lower) than FD	0.3

Explained by:

Opening cash difference at 1 April 2025	57.1
Tier 1 revenue (HH, NHH, Other)	(58.0)
Infrastructure charges income	(8.9)
Disposal proceeds	0.9
Grants and contributions	(4.9)
Borrowing	(6.6)
Operating and PFI costs	(23.7)
Responsive repair and refurbishment	28.8
Developer contribution and tax paid	7.7
Interest charges	37.0
Tier 2 investment	(59.3)
Movement in working capital	30.2
	0.3

Table M11 – Regulatory Accounts Working capital (Core)

Table M11 sets out the movements in working capital. All of the balances presented in Table M11 are on a regulatory accounting basis except for lines 11.25 and 11.26. Additional rows have been included within the table since AR25 to improve alignment with the joint financial model.

Table M18W and M18WW commentary – see Section 4 below

Table M21 – Taxation analysis

Table M21 provides a taxation analysis,

The 2024/25 data has been updated to reflect the actual 2024/25 tax computation submitted to HMRC.

Tables M27a and M28a – Consolidated IFRS Income Statement and Historic Cost Balance Sheet

The consolidation tables – M27a and M28a – include the results of Scottish Water and all its subsidiaries. Business Stream's results are included in the Licensed column and all other subsidiaries have been added to the non-core non-licensed column. IFRS adjustments are included within M27a and M28a to arrive at the presentation within the Performance and Prospects report. The core column is linked to tables M4 and M5.

The core column in M27a is populated with the values from Table M4 with current cost items being removed and regulatory to statutory recognition adjustments included in the depreciation charges adjustment column (Lines M27.4, M27.5 and M27b.4). The consolidated column allows for a direct comparison to the published total comprehensive income for the year.

The core column in M28a is populated with the values from Table M5 with current cost items being removed and regulatory to statutory recognition adjustments included in the Net MEAV to HCA fixed asset value adjustment column (lines M28a.1, M28a.2, M28a.21, M28a.25 and M28a.26).

The significant movements in tables M27a and M28a are explained in the sections below:

Table M27a – Consolidated IFRS Income Statement

The core IFRS adjustments, excluding the current cost adjustments explained above, are:

- M27.2 - The operating expense adjustment reflects the accounting treatment of lease costs under IFRS 16 to separate the costs into a liability repayment and interest costs as presented in Table M3.7.
- M27.3 - This expense adjustment reflects the adjustments associated with PFI finance lease costs under IFRIC 12 to separate the costs into a liability repayment and an interest cost as shown in line M27.10.
- M27b.2 - Is the net actuarial gain at March 2026 calculated from changes in actuarial assumptions and expected return on assets set at the beginning of the year. The actuarial assumptions and valuation of the defined benefit pension scheme calculation are provided by independent qualified actuaries.
- M27b.3 - This represents the actuarial service cost and interest expense of the defined benefit pension scheme, net of actual cost of contributions paid to the pension funds as per IAS19.

Further details of core IFRS adjustments can be found at appendix 1.

The intercompany items being visibly eliminated (in col 7) on this table are the intercompany wholesale income in SW and the intercompany cost of sales in Business Stream. The intercompany interest between SW and Business Stream is already eliminated across line 27.10.

Non-core / non-licensed includes the results for the two holdings companies (Scottish Water Business Stream Holdings (SWBSH) & Scottish Water Horizons Holdings (SWHH), SWH, and Scottish Water Services (Grampian) (SWSG).

Table M28a – Consolidated Historic Cost Balance Sheet

The core IFRS adjustments, excluding the current cost adjustments explained above, are:

- M28a.4 - This entry primarily relates to the timing of pension fund contribution payments reflected in M28.19.
- M28a.19 - This represents the net pension liability required under IAS19 at the end of the period. This is independently calculated and is audited as part of our year end audit to ensure compliance with the standard. Actuarial assumption changes result in the pension liability being presented as a liability for 2025/26. Additional information can be obtained from note 22 to the Financials in our Performance & Prospects report for 2025-26.
- M28a.20 - This entry is reducing the unfunded pension benefit provision already included in post-employment asset / liabilities, line M28.19.
- M28a.27 – This value represents the remaining liability under IFRIC 12 for all PFI contracts and contracts classified as leases under IFRS 16.

The Non-core / non licensed column includes the balance sheets of SWBSH, SWHH, SWH, and SWSG.

Table M29 – Interest

Table M29 reconciles the movement in net interest expense presented on Table M4 (line M4.10).

Line M29.11 adjusts the calculation in line M29.7 for timing differences. This is required as a reconciling item as line M29.7 assumes all new borrowing and borrowing repaid takes place at the start of the year. Table M30 provides more detail on the drawdown and repayment dates.

Interest income decreased £7m to £4m (line M 29.9) reflecting lower levels of funds on deposit throughout the year due to cash utilisation.

Prepaid wholesale charges interest (line M29.10) increased by £2m up to £6m.

Tables M30 & M31 – Inventory of loans

Tables M30 and M31 provide a full listing of SW's loans.

Table M30 details the principal value of the loans due for repayment in full by their maturity dates. The listing includes details of the £127m of loans repaid during 2025/26.

Table M31 details the loans which have periodic repayment of the principal throughout the term of the loan.

Table M32 – Economic depreciation

Table M32 seeks to calculate the theoretical economic depreciation charge (M4.5), net MEAV at 31 March 2026, and the replacement deficit or surplus (M5.21) when considering the asset replacement expenditure in the year. Economic depreciation is calculated as the gross MEAV, as per table H1, divided by the average useful life of assets. As the economic depreciation calculation does not consider those assets deemed to have infinite lives, the average useful life of assets has been adjusted to remain consistent with SW MEAV methodology.

4. Commentary– Tables M18W & M18WW

Introduction

The M18 tables are produced for Scottish Water regulated and non-regulated activity (including non-regulated activities within Scottish Water Horizons), prepared on a historic cost basis and excluding IFRS adjustments. As mentioned in the introduction above, all activities carried out by the SW entity are considered core following the updated RARs. Changes to the general ledger have been made for 2025-26 and therefore all activities within Scottish Water are reported within the core columns for AR26. These changes were not in place for AR25 and therefore due to the population of tables following our general ledger structure, £2.8m of SW activities previously classified as non-regulated but reassessed as core were presented in the non-core column in AR25. For AR26, estimated previously classified non-core costs on a like-for-like basis were c. £2.7m (M1.25).

To aid comparison, the table below reconciles Scottish Water's Tier 1 operating costs, as per Table M1, to cost data included in the M18 tables of the Regulatory Accounts.

	Table ref	£m			
Tier 1 operating costs	M1.10	547.3			
Add: Repair and refurbishment expenditure previously expensed as operating expenditure in SR15	M1.23	65.0			
Less: directly capitalised tier 1a spend previously expensed as operating expenditure in SR15	M18W.29, M18WW.30	(13.9)			
SW regulated operating costs		598.4			
SW Non-reg operating costs		-			
SW Horizons operating costs		11.5			
Operating costs		609.9	Diff	Total	M18W/WW Tables
PFI costs	M1.11	167.4			M18W M18WW
PFI Costs		167.4	7.1	174.5	334.6 268.2
Total operating expenditure	M18W.25, M18WW.26	777.3	0.0	777.3	334.6 442.7
Explained by charges to SWBS and others for support			0.0		
* Table References - lines:					
				[M18W.25]	[M18WW.26]

The line differences in the table above are explained as follows:

- £7.1m difference between the SW Board report and the M18 Tables re. PFI costs represents costs incurred in providing SW support to PFI activities;
- The expenditure totals differ slightly due to charges to SWBS for support being excluded in the preparation of the M18 tables

Cost analysis in Tables M18 W and M18 WW was prepared using reports from SW's 2022-23 Activity Based Management (ABM) process updated with 2025-26 general ledger costs. The simplified ABM methodology used in 2025/26 did not differ materially from the methodology in 2022/23 and was audited as part of the Binnies audit in May 2026. A detailed explanation of the methodology was provided in Appendix 2 to 2024/25 commentary.

Commentary

For 2025/26, the operating expenditure sections of the M18 tables have been populated using SW's ABM model on a basis consistent with 2024/25. Rows M18.25 (W) and M18.26 (WW) show total regulated operating costs including responsive repairs and refurbishment costs of £51.1m.

Additional Tier 1a costs previously reported as operating expenditure is shown in rows M18.29 (W) and M18.30 (WW). The table below shows a reconciliation to values included within the M1 table.

Tier 1a Reconciliation	2025/26
	£m
Tier 1a spend reported within Total operating expenditure	51.1
Water M18.29 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	6.7
Wastewater M18.30 Repair and refurbishment previously expensed as operating expenditure in SR15 (Tier 1a)	7.2
M1 table line 1.23 - Repair and refurbishment expenditure previously expensed as operating expenditure in SR15	65.0
Water M18.30 Remaining responsive repair and refurbishment expenditure (Tier 1a)	92.1
Wastewater M18.31 Remaining responsive repair and refurbishment expenditure (Tier 1a)	100.2
M1 table line 1.12 - Responsive repair and refurbishment	257.3

Total operating costs increased by £30.2m (4%) to £777.3m.

Total Operating Costs	2025/26	2024/25	Variance
	£m	£m	£m
Operating expenditure - water M18w.43	334.669	311.068	(23.601)
Operating expenditure - water M18ww.44	442.636	436.006	(6.630)
	777.305	747.074	(30.231)

Analysis by activity:

	2025/26	2024/25	Variance
	£m	£m	£m
Wholesale	696.289	654.739	(41.550)
Retail	69.563	66.142	(3.421)
Non Regulated	11.453	26.194	14.741
	777.305	747.074	(30.231)

Wholesale activity costs increased by £41.6m (6%) from 2024/25 to £696.3m reflecting the following key movements at line level:

- An increase in direct employment costs of £19.6m due to pay inflation, the employers' NI increase, and additional costs associated with the change in pensionable pay definition;
- An increase in general and support costs of £9.3m due to hires to supporting drought-related activities, an increase in digital costs with new systems going live during the year and to a lesser extent the same drivers as employment costs for support functions;
- An increase in direct power costs of £7.6m primarily driven by higher wholesale energy prices;
- An increase in hired and contracted services of £3.8m driven costs relating to drought-related activities and water quality incident at Killin WTW caused by external pollution;
- Costs associated with scientific services increased by £3.6m, reflecting the same drivers as direct employment costs;

- Local authority rates costs decreased by £3.3m, mainly reflecting rates refunds resulting from successful RV appeals.
- Materials and consumables costs increased by £2.2m due to increased chemicals usage to maintain compliance;
- Other direct costs decreased by £2.2m mainly due to a reduction in insurance claims costs; and
- A decrease in PFI costs of £0.7m linked to fluctuations in underlying contract volume drivers and one-off impacts.

Retail activity costs increased by £3.4m (5%) to £69.6m primarily driven the employment costs drivers as detailed above.

Non-Regulated costs have decreased by £14.7m (56%) to £11.5m mainly due to the non-recurrence of significant one-off losses recognised in the prior year, including those associated with the disposal of the Deerdykes AD plant and Heat from Waste assets. As mentioned in the introduction section above, all Scottish Water activities are classed and presented as core in AR26; AR25 included £2.8m of non-regulated costs as tables were prepared in advance of general ledger structure updates.

IFRS Statutory Accounting adjustments

Table M27a provides the results of Scottish Water Core on the IFRS Accounting and consolidated basis. The non-cash pension adjustments, as calculated under IAS 19, have all been included in Table M27b.

All reconciling items are purely the IFRS entries in respect of PFI costs, lease costs, and the removal of fixed asset current cost adjustments. The net impact on the profit before tax is summarised below.

<i>(Increase)/decrease in costs</i>		£m	Note ref.
		£m	
Loss before tax per table M4 (line M4.11)		(224.5)	
IFRS 16	Leases - depreciation and lease liability	(0.2)	1.
IFRIC 12	PFI costs - depreciation & lease liability	10.6	2.
	Reg to stat repairs	(14.9)	
	Economic depreciation	396.1	
Scottish Water - net decrease in costs		391.6	
Profit before tax on table M27a (Core) stat (line M27a.11)		167.1	

1. IFRS 16 'leases'

IFRS 16 'leases' came into effect for SW from 1 April 2024. Under IFRS 16, lease agreements, excluding short-term leases and leases of a low value, are classified as finance leases, resulting in the leases being brought onto SW's balance sheet in the form of a right-of-use asset and a lease liability. The annual lease costs incurred are broken down into three categories: finance costs and a reduction of the finance lease obligation. In addition, there is a depreciation charge calculated in respect of the right-of-use assets held on the balance sheet.

The adjustment in respect of IFRS 16 leases of 0.2m in the table above is allocated in M27a as follows:

<i>Adjustments in statutory accounts:</i>			£m
<i>Income statement</i>			
Cost of sales	Lease costs reallocated	M27a.2	4.0
	Depreciation	M27a.5	(3.6)
Finance costs - net		M27a.10	(0.6)
Impact on surplus before tax			(0.2)

2. IAS 17 'Leases' & IFRIC 12 'Service concession arrangements'

Under IFRIC 12, the PFI service concession arrangements were reclassified as finance leases resulting in the PFI assets being brought on to Scottish Water's balance sheet. The annual PFI costs incurred are broken down into three categories: operating costs, finance costs and a reduction of the finance lease obligation. In addition, there is a depreciation charge calculated in respect of the leased assets held on the balance sheet.

In Table M27a, line M7a.3 'PPP costs' for the core business consists of the operating costs totalling £138m in 2025-26. The total depreciation charges of £11m are in line 27a.5, the finance costs of £8m are in line 27a.10 and Scottish Water internal costs are included in line 27a.3.

The table below provides the reconciliation from Table M4 to Table M27a core (stat).

	M Table / line ref	2025/26 £m
Total PPP costs in Table M4	M4.3	167.4
IFRS adjustments:		
Less: Depreciation charges - PPP leased assets		(10.7)
Less: Finance lease obligation - to balance sheet		(18.3)
Total PPP costs in Table M27a	M27a.3 core (stat)	138.4

Table M27b – Consolidated – Statement of comprehensive income

This table has been completed on a consistent basis with prior years and includes all of the IAS 19 'Employee benefits' adjustments in respect of the post-employment benefits. These IFRS adjustments are all non-cash.

The profit for the year (line M27b.1) is the Core (stat) retained profit from Table M4 Stat (line M4Stat.19).

The actuarial gains/losses on post-employment plans (line M27b.2), net of related deferred taxation, are as reported in the statutory results for Scottish Water.

The post-employment plans (non-cash), net of tax (line M27b.3) consists of the total service cost and the net financing expense as calculated under IAS 19 which replace the 'normal management' operating costs as charged in tables M1 and M4 (line M4.2). The net adjustment of £12.3m is analysed as follows:

	SW £m
Pension service cost adjustments	(11.5)
Interest on pension scheme net liabilities	6.3
Deferred tax on IAS 19 adjustments	(7.1)
	(12.3)

There were no other gains or losses (line M27b.5).

Table M28a – Consolidated Balance Sheet – including reconciliation from Regulatory to Statutory accounts

Tangible assets balance (line M28a.1 core (stat)) equals the Property, plant & equipment and Intangible asset balance per the IFRS accounts.

PFI assets and right-of use assets form part of the Property, plant & equipment balance, and totalled £170m and consists of the SW owned assets and the assets treated as leased under the IFRS basis. The related finance lease liability is shown in line M28a.27. The following tables provide additional analysis and reconciliation to the presentation in the statutory accounts.

Balance sheet (see Appendix 1.2)

Property, plant & equipment			£m
Leased assets			157.8
Owned assets	(reclassification)		12.2
		M28a, line 28a.1	<u>170.0</u>
Other loans & borrowings			
Finance lease liability	< 1 year		23.6
	> 1 year		103.1
	total	M28a, line 28a.27	<u>126.7</u>

Post-employment asset / (liability) (line M28a.19) shows the retirement benefit asset under IAS 19, net of the related deferred tax balance, as described in the M28a commentary above and detailed below.

<i>Balance sheet</i>			£m
Retirement benefit obligations (Post employment liabilities)			(77.6)
Deferred taxation on retirement benefit obligations			19.4
Retirement benefit obligations - net		M28a, line 28a.19	<u>(58.2)</u>

Retained earnings (line M28a.22 Core (stat) consists of the total of the reserve brought forward from 31 March 2025 and the retained profit for 2025/26 (Table M27a core (stat), line M27b.5), as detailed below.

			£m
<i>Retained earnings reconciliation as per table M28a</i>			
Retained earnings as at 31 March 2025	M28a stat, line 28a.22		1,678.8
Total comprehensive income for the year	M27b stat, line 27b.6		136.0
Prior period pension adjustment			(8.0)
Retained earnings carried forward at 31 March 2025	M28a stat, line 28a.25		<u>1,806.8</u>

