

MODERN SLAVERY STATEMENT FY21/22

This statement is made pursuant to section 54 (1) of the Modern Slavery Act 2015 and constitutes Scottish Water's anti-slavery and human trafficking statement for the 2021/22 financial year which ended on 31st March 2022.

Our organisation structure and supply chains

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.

Scottish Water provides water and wastewater services to 2.61 million households and more than 150,000 business premises across Scotland. We have an annual turnover in excess of £1 billion and invest over £600 million per annum in improvements to water and wastewater infrastructure.

We have over 4,000 staff including directly engaged employees and contingent and agency staff. Scottish Water recognises three trade unions and a Negotiating Forum is held with representatives from these unions to negotiate changes to contractual policies and employee terms and conditions, including pay.

We have an extensive framework supply chain of up to 450 suppliers regularly providing goods and services to our operations and infrastructure across the whole of Scotland. Our water and wastewater infrastructure can be technically complex. Whilst 76% of our direct supply chain is based within Scotland, there can be multiple levels of suppliers between Scottish Water and the source of raw materials used in the supply chain, which can span many countries.

Details of our business structure can be found on our website and details regarding our financial position in respect of the 2021/22 financial year can be found in our Annual Report, also available on our website.

The main trading businesses of the Scottish Water group are:

- Scottish Water, which supplies households and wholesale licensed providers with regulated water and wastewater services;
- Scottish Water Horizons Limited, which provides non-regulated services to customers both within Scotland and internationally;
- Aberdeen Environmental Services Limited ("AES") and Scottish Water Services (Grampian) Limited ("Grampian"), which operate four wastewater treatment works in the North East of Scotland under a PFI contract; and
- Scottish Water Business Stream Limited, our licensed retail subsidiary which supplies water and waste-water services to business customers.

AES and Grampian were acquired by the Scottish Water group in December 2018. Their supply chain will be integrated within the Scottish Water supply chain by late 2022 and Scottish Water group supply chain policies, including those in relation to anti-slavery, will be adopted.

Scottish Water Business Stream Limited has a turnover in excess of £36m and is required to prepare its own statement and is therefore not covered by this statement. The position in relation to the other listed trading subsidiaries is included in this statement.

The Compliance Officer for modern slavery within Scottish Water is the General Manager for Procurement and Supply Chain (PSC), and they hold the responsibility for preparing this statement.

Our policies in relation to slavery and human trafficking

Scottish Water is committed to working in a responsible and sustainable way that serves the long-term interests of our customers, employees, suppliers, the communities we serve and society more widely. We undertake to engage with our people and procure goods and services in a

sustainable and ethical manner in compliance with our values, public sector policy and procurement law.

Scottish Water strongly opposes modern slavery and child labour and we are committed to eradicating these within any element of our business and supply chain. We expect all those who work for us and with us to adopt the same stance and we have a zero-tolerance approach to inaction and cover up of these issues. Any suppliers engaging with Scottish Water are expected to be transparent and honest if any issues of modern slavery or child labour are discovered, and to commit to taking meaningful action to address such instances or concerns within their businesses and supply chains.

Our internal employee policies include a Grievance Policy and a Code of Ethical Conduct which both form part of our conditions of employment. We also have a Whistleblowing Policy, and an external independent Whistleblowing Helpline run by Safecall which is also available for our supply chain partners and members of the public. Our policies are available to all staff on our intranet and are reviewed at least every two years, or more frequently if required.

Framework suppliers are required to confirm adherence to our Supplier Code of Conduct which references our approach to modern slavery, and every framework includes a clause permitting Scottish Water to terminate for breaches of the Modern Slavery Act.

Scottish Water also has an Anti-Slavery Policy which is applicable to all employees, suppliers and contractors. This policy outlines our approach, the roles and responsibilities of relevant parties and also identifies potential indicators of slavery in victims and within our supply chain.

Due diligence processes

We consider the risks of modern slavery within our employee base to be low. Within our own business we undertake appropriate pre-employment checks to ensure a right to work in the UK, with further identity checks as required. All contracts of employment, and pay, are directly with the individual and checks are run monthly which highlight the use of joint bank accounts for salary payments. We pay a minimum of the Real Living Wage and are accredited by the Living Wage Foundation.

Scottish Water has a framework in place for the provision of temporary staff via employment agencies and the terms of this include a requirement to adhere to the Conduct of Employment Agencies and Employment Business Regulations 2003, which prevents agencies charging work seekers a fee for finding employment.

The breadth, depth and interconnectedness of our supply chain make it challenging to manage business and sustainability issues. In FY21/22, approximately 99% of our direct supply chain was UK-based and over 81% of our spend was with UK companies which have an annual turnover of over £36m and are therefore required to publish an annual statement under the Modern Slavery Act. We carry out due diligence checks to ensure these statements have been updated and are available on supplier websites. Many suppliers with a turnover of below £36m voluntarily produce their own modern slavery statement; those that don't are required to sign a Scottish Water declaration annually confirming their adherence to modern slavery legislation. Within supplier selection processes suppliers are required to confirm if they have an anti-slavery policy and declare any convictions for breaches of anti-slavery laws.

In 2021 Scottish Water joined Scotland Against Modern Slavery and the cross-industry working group Utilities Against Slavery. These forums are valuable opportunities to raise awareness of modern slavery issues and share best practice.

Risk assessment and management

In FY21/22, 3 modern slavery supply chain audits were undertaken by the Procurement and Supply Chain function. These included an infrastructure supplier, an operational delivery partner and a regional services contractor. Corresponding action plans have been developed following these audits and will be tracked over the coming months.

Scottish Water also undertook a deep dive of its solar panel supply chain to understand the risks of modern slavery within this sector and the results of this fed into the decision-making for a solar panel project to be undertaken in 2022.

In FY21/22, Scottish Water appointed an Ethical Supply Chain Champion within the Procurement and Supply Chain function to review our approach to issues including modern slavery. As part of this review, our Executive Leadership Team and Board of Directors approved a revised approach to supply chain risk analysis. The new approach reflects that Scottish Water considers its greatest risks of modern slavery to come from its sub-tier supply chain and takes into account the risks of the industry / commodity of the items procured and the origin of raw materials. The categories which we currently deem to be most high-risk include solar panels, digital hardware, valves, service fittings and motor control panels.

Ethical risk analysis scores will be reviewed on an annual basis, or earlier should any concerns be raised for a particular supply route.

Key performance indicators to measure the effectiveness of steps being taken

100% of our direct suppliers with a turnover below £36m have signed the Scottish Water Modern Slavery declaration or published their own Modern Slavery Statement within the past 12 months

100% of our direct suppliers with a turnover above £36m have published their own Modern Slavery Statement within 6 months of the end of their most recent financial year

100% of planned supplier audits were carried out with action plans agreed and implemented

We received 0 concerns regarding modern slavery through our Whistleblowing helpline

Training on modern slavery and trafficking

Our online Modern Slavery training module provides employees with an overview of what modern slavery is, indicators of modern slavery and the roles and responsibilities of employees and line leaders. Staff within our Procurement and Supply Chain function and those in our People Directorate are required to undertake this training. All employees undertaking the training are tested on their understanding and are required to reach a minimum score in order to successfully pass the course.

Reporting

We encourage the reporting of concerns by employees to their line managers. If they do not feel comfortable doing this, they can contact our whistleblowing line which is available 24/7.

Next Steps in FY22/23

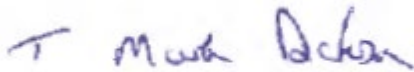
In FY22/23, Scottish Water commits to undertaking the following activities:

- In line with our revised approach to supply chain risk analysis, Scottish Water will prioritise the highest-risk categories for supply chain mapping and further analysis of their management controls and risk mitigation activities. Scottish Water may decide to instruct external audits of the lower tier suppliers within these areas where deemed necessary.
- We recognise that there may be areas of our supply chain where we find instances of modern slavery and our initial focus will be to work with our supply chain to resolve issues. If we are unable to reach an appropriate solution we will only continue to work with those suppliers as a last resort where no global alternative is available. We will be transparent whilst we take the lead to explore alternative options and seek out other like-minded organisations to use our combined leverage to try and drive change.

- We will carry out random audits on areas of our supply chain that we have deemed to be lower risk, to check whether existing controls are adequate.
- The supplier selection process will be expanded to include the requirement for bidders to evidence the steps they undertake to reduce the risks of modern slavery within their business and supply chains and commitments will be contractualised.
- We will develop an ethics section on our Supplier Portal to provide our suppliers with support and guidance regarding best practice and signposting to key resources.
- Our internal modern slavery training module will be reviewed and updated as necessary.
- The requirement for suppliers to commit to the 7 elements of Fair Work First, including the requirement to pay the Real Living Wage, will be embedded in all new frameworks with UK based suppliers.
- We will start to report on wider ethical considerations within our supply chain, including the diversity of our direct suppliers' employee bases and their commitment to elements of Fair Work First.

The Scottish Water Supply Chain Steering Group and Risk and Audit Committee reviewed and approved this statement prior to its approval by the Board of Scottish Water. The Board approved this statement on 29th June 2022.

Signed on behalf of the Board of Directors of Scottish Water:

A handwritten signature in blue ink, appearing to read 'Mark Dickson'.

Mark Dickson, Director of Capital Investment

Date: 29th June 2022