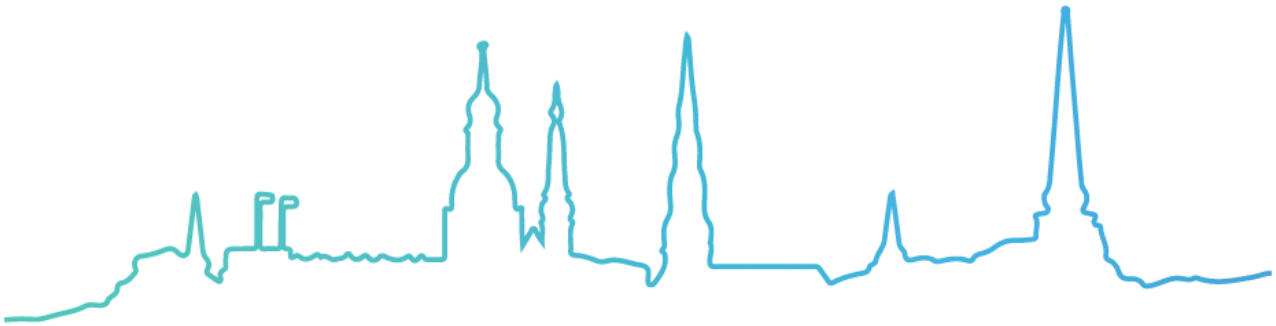
LLC “Rīgas ūdens”

SUSTAINABLE DEVELOPMENT STRATEGY

2040

Riga, 2024

RĪGAS ŪDENS



LLC “RĪGAS ŪDENS”

SUSTAINABLE DEVELOPMENT STRATEGY

2024 -2040

The strategy uses data as at	31.12.2023
Regulatory status on the	01.06.2024
Strategy developed	Management Board of the LLC “Rīgas ūdens”
Strategy agreed with	the responsible bodies of the Riga State City Municipality
Strategy approved by	Supervisory Board of the LLC "Rīgas ūdens" dated
Planned update Strategy	18.06.2024 in 2028
published	www.rigasudens.lv

CONTENTS

1 Introduction

Riga is rich in water resources - both surface water supplies and drinking water availability are more than sufficient for today's city needs. However, the future needs and attitudes towards the common wealth of the residents of Riga need to be aligned with the global changes that affect everyone in today's world - periods of economic crisis and growth, demographic trends, rapid technological developments, climate change, the volume and impact of information flows. A comfortable, safe and attractive urban environment is a significant factor to attract residents, businesses and visitors - "Rīgas ūdens" is responsible for provision of quality and safe water management services for every user in Riga.

Riga as the capital and economic centre of Latvia is one of the most important stages for sustainable development of Latvia. The objective is not only to create a balanced urban infrastructure and urban environment that meets the social and economic needs of today's residents, but also to ensure dynamic progress of urban growth and infrastructure improvements that meet environmental requirements and provide for responsible use of resources. All these efforts are being made to ensure that the opportunities and quality of life of future generations of the residents of Riga are not compromised.

Within the context of global political changes, technological developments and increased mobility, it is difficult to predict the situation even in the short term, but there are areas that can be considered as the pillars of the water supply system in Riga and also the Greater Riga, and the following Strategy forecasts the desired situation to provide in the city uninterrupted water supply and wastewater treatment system that meets the requirements.

The regulatory enactments and long-term planning documents of the Republic of Latvia and the European Union identify actions and priorities in the water management sector, which are aimed at sustainable and systemic water management service provision and committed action by all stakeholders to tackle climate change. In light of this framework, "Rīgas ūdens" has developed a new long-term operational strategy, highlighting the main development areas and updating priority measures for the period up to 2040.

When defining the company's long-term operational guidelines, objectives for the provision of water management services and environmental protection set out within the framework of higher-level planning documents have been taken into account, thus we will contribute to implementing Latvia's overall climate goals, reducing environmental pollution and sustainable use of resources, and facilitating the transition to circular economy. Using the sustainability scope as a tool, we will integrate sustainability principles into every decision related to the company's business objectives and the provision of public services. Sustainable Development Strategy of "Rīgas ūdens" stipulates the Company's development priorities and directions for environmental, social and governance area for the period up to 2040. Cooperation intentions related to improvement of water management services in the Greater Riga are important. It should be taken into account that the ambitious goals set by European regulation and the need to ensure the renovation of outdated infrastructure will require significant investments.

The Sustainable Development Strategy is the most important long-term development planning document of "Rīgas ūdens". The objectives included in the Sustainable Development Strategy will be detailed in "Rīgas ūdens" Medium-Term Operational Strategy 2025-2030. For each year of the Medium-Term Operational Strategy, we will develop a short-term (annual) operational plan. Specific goals and measurable deliverables in the short, medium and long term will be set in the essential aspects. The long-term development strategy will be reviewed at least every five years, while planning medium-term operational strategy for each successive phase.

LLC "Rīgas ūdens"

SUSTAINABLE DEVELOPMENT STRATEGY

≥250 km
Renovated water-supply networks

2%
Investments in research and development

↓ 50%
Reduced GHG emissions

↓ 30%
Water losses

100%
WWTP* energy neutrality

≥150km
Renovated sewage networks

↑ 50%
WWTP* hydraulic capacity

≥98%
Waste-water load collection and treatment

75%
ESG and GHG targets set by cooperation partners

≥85%
Employee satisfaction

*WWTP - wastewater treatment plant

2 INFORMATION ON THE COMPANY

2 INFORMATION ON THE COMPANY

Shareholder

Riga State City Local Government

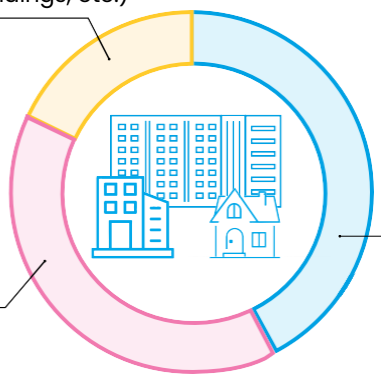
100%

RĪGAS ŪDENS

Customers

18%
Non-residential premises(production, offices, public buildings, etc.)

Number of contracts
23847



40%
Owners of apartment houses, associations etc.

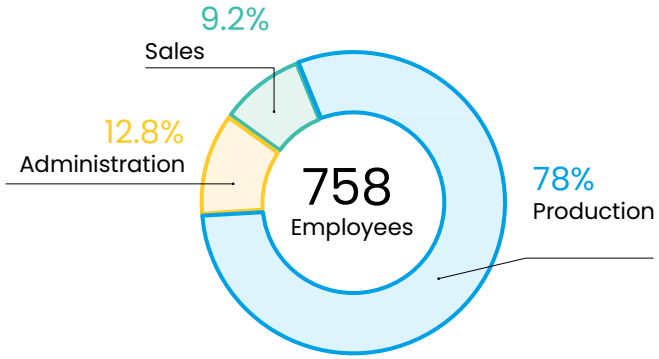
42%
Family houses (private houses)

645261
Number of residents in Riga

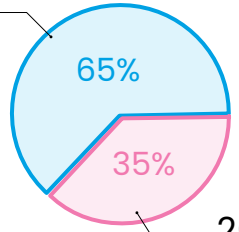
628,304 (97.4%)
Water supply users in Riga State City

613,978 (96.4%)
Sewerage users in the waste-water agglomeration

Staff



492
men



266
women

Average age

2 INFORMATION ON THE COMPANY

Water supply

6
Water intakes

17
Water pressure increase pumping stations

11540
Gate valves (DN=>100)

4165
Water supply manholes

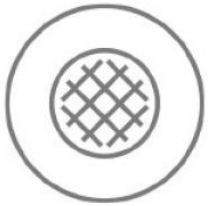
1,518 km
Water supply networks

5
Water reservoirs

7606
Fire hydrants

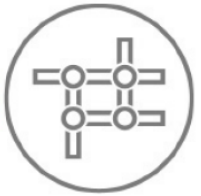
285
Wells

Waste-water collection and treatment



36522
Sewage manholes

106
Sewage pumping stations



1260 km
Sewage networks incl. ~25% total system

Biological treatment plant "Daugavgrīva"

2 **INFORMATION ON THE COMPANY**

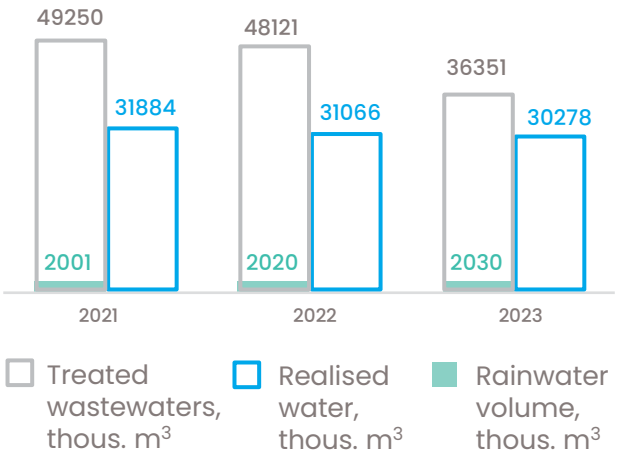
Volume of services

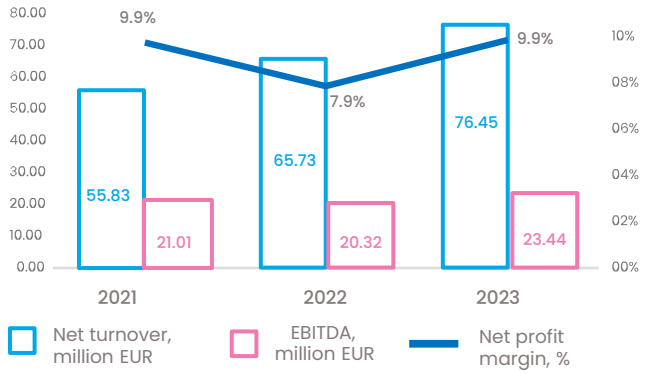
Feed water
35,506 thous. m³

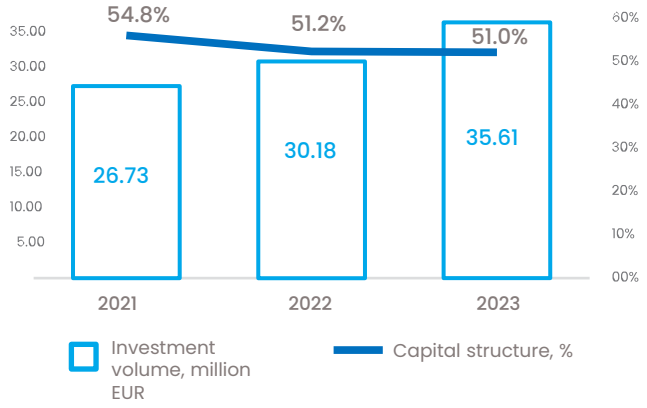
Sold water
30,278 thous. m³

Treated wastewaters
50,477 thous. m³

Realised wastewater volume
36,351 thous. m³







3 VISION. MISSION. VALUES

MISSION

We provide water management services for the development of the city and the well-being of its residents

VISION

A sustainably managed and technologically advanced water management company, reliable service provider, employer and cooperation partner

Clean water - green future

VALUES

Sustainability:

our actions and choices today have consequences for the future and it is therefore important to act responsibly towards a balance between economic, social and environmental dimensions

Responsibility:

for the use of water resources important for Riga, water management services safe for residents and the environment, and the management of strategic infrastructure

Reliability:

Customers trust that we provide a uninterrupted, safe services, work efficiently, moving towards improvement of our operations, and introduction of new ideas and technologies

Honesty:

We focus on long-term cooperation, building strong and fair relationship with employees, business partners and other stakeholders

4 BUSINESS MODEL

4 BUSINESS MODEL

"Rīgas ūdens" operates in a strategically important sector, performing a municipal function in the area of water supply and sewerage services, providing public water management services within the administrative territory of Riga City and in some municipalities of the Greater Riga.

On 24 July 2019, the Riga City Municipality and the Company concluded an agreement for the provision of the following public water management services in the administrative territory of Riga City for a period of 10 years (until 23 July 2029).

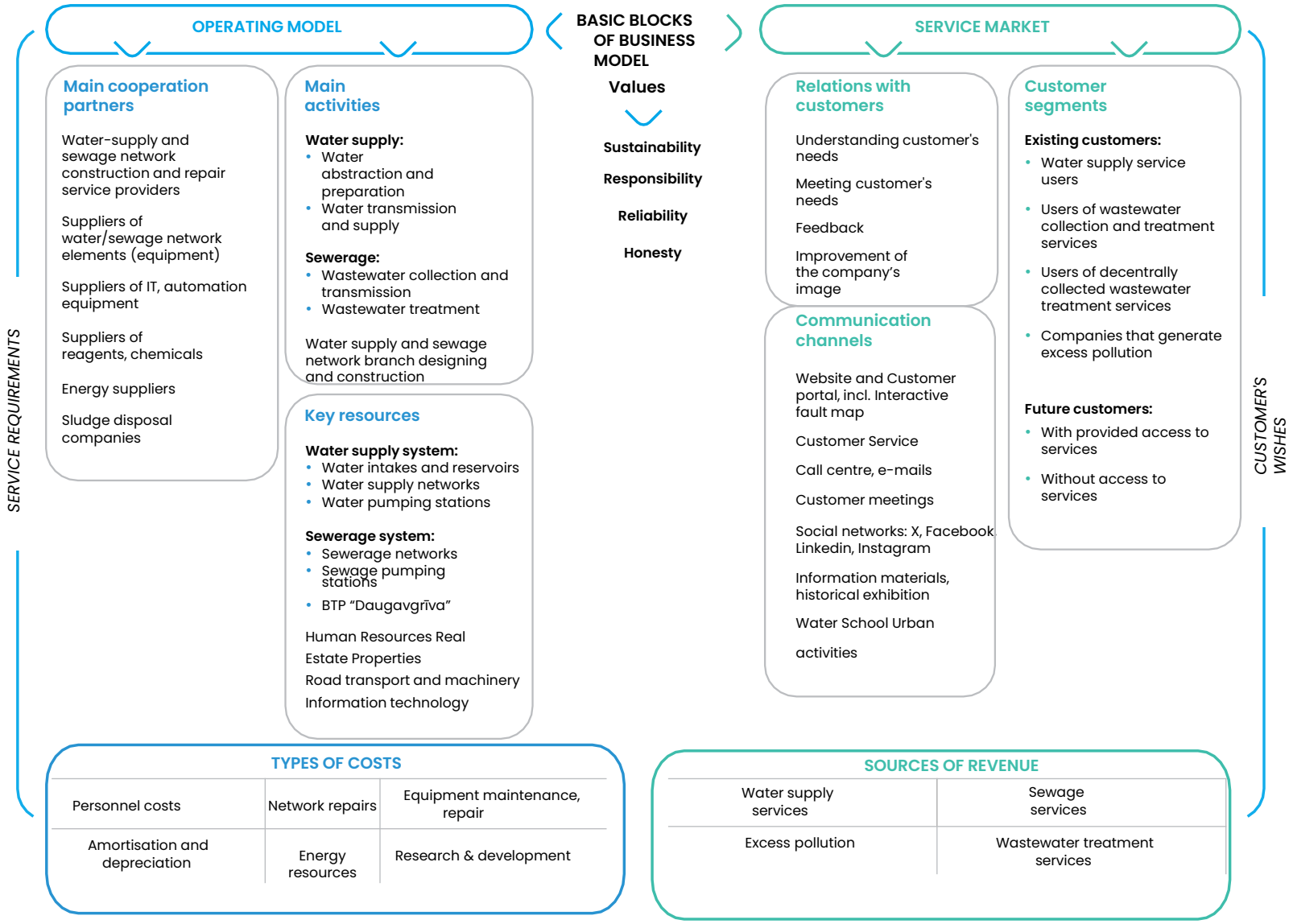
In providing public water management services, "Rīgas ūdens" provides the following:

- compliance of services with certain quality and environmental requirements, technical regulations, standards and conditions of the contracts with service users
- quality of drinking water and wastewater treatment in accordance with the requirements of the laws and regulations of the Republic of Latvia and EU legislation
- maintaining water quality and quantity at water intakes within their competence;
- addressing matters concerning environmental protection and efficient use of water within its competence
- water monitoring in the cases and in the procedures provided for in permits and regulatory enactments;
- development and implementation of water management infrastructure within the framework of its competence, implementing relevant EU directives

The business model of "Rīgas ūdens" has been designed to achieve the overarching goal set for the company by its owner, the Riga State City local government:

To provide high-quality and reliable water management services, ensure sustainable and safe use of water resources important for Riga, and management of the strategic infrastructure, and promote involvement of the residents in preventing water pollution.

4 BUSINESS MODEL



5 VALUE CHAIN

5 VALUE CHAIN

"Rīgas ūdens" value chain includes all the activities and operations necessary to ensure the services the company provides. Throughout the value chain, the company always strives for a balance between economic benefits, responsible behaviour towards employees and society as a whole, and care for the environment.

1. Extraction of water resources

- Extraction of surface and underground waters from natural sources
- Testing of the physical, chemical, and bacteriological properties of water

2. Water accumulation, preparation for use before feeding it into the centralised water supply networks, supply in the network

- Regulating the physical, chemical and bacteriological properties of water to meet quality and safety requirements
- Maintenance and repair of technological equipment, internal networks

3. Water transmission and delivery to users

- Water delivery using the infrastructure from the feeding sources in the centralised water main in the network up to the border of belonging
- Maintenance of water supply network infrastructure, breakdown prevention, repairs
- Metering of water consumption

4. Provision of consumers with water

- Distribution of water to customers in the quantities and at the pressures required

5. Wastewater collection in the centralised systems

- collection of wastewater in the centralised sewerage systems from the boundary of the area of competence, discharging to wastewater treatment plants
- supervision and analysis of performance of the centralised sewerage system
- maintenance of sewerage system, provision of the pressure and feeding operating mode
- provision of the operation of sewer pumping stations, maintenance of technical equipment

6. Wastewater treatment

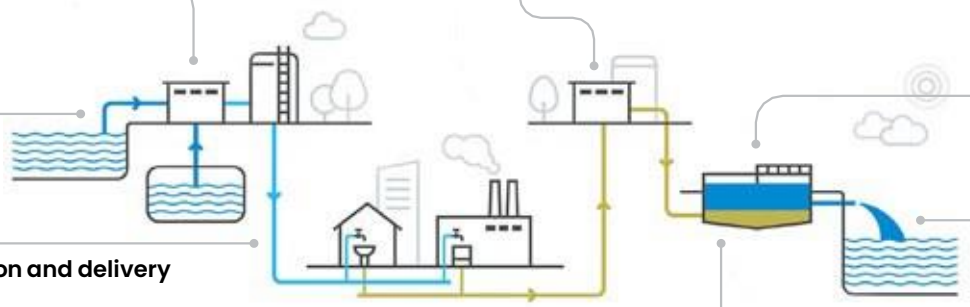
- Mechanical and biological wastewater treatment
- Sludge treatment and disposal
- Regulation and supervision of the production process
- Wastewater quality control
- Maintenance and repairs of the infrastructure and internal network

7. Recovery of by-products of the treatment process

- use of sludge for biogas production

8. Discharge of treated wastewater into the environment

- Wastewater quality control



Risk management

Provision and maintenance of transport, machinery and equipment

IT infrastructure and network technical data management

Customer service provision

Research and development, use of RES

Human resources management

Financial and procurement management

6 STAKEHOLDERS

6 STAKEHOLDERS

"Rīgas ūdens" is continuously developing its approach to meaningful stakeholder engagement. Taking also into account best practice standards, systematic stakeholder engagement plays an important role in the outcomes of "Rīgas ūdens"'s sustainability goal planning and development vision, as it promotes stakeholder trust in the company, improves communication and understanding of the company as a whole, and builds the rationale for "Rīgas ūdens"'s ambitious development priorities.

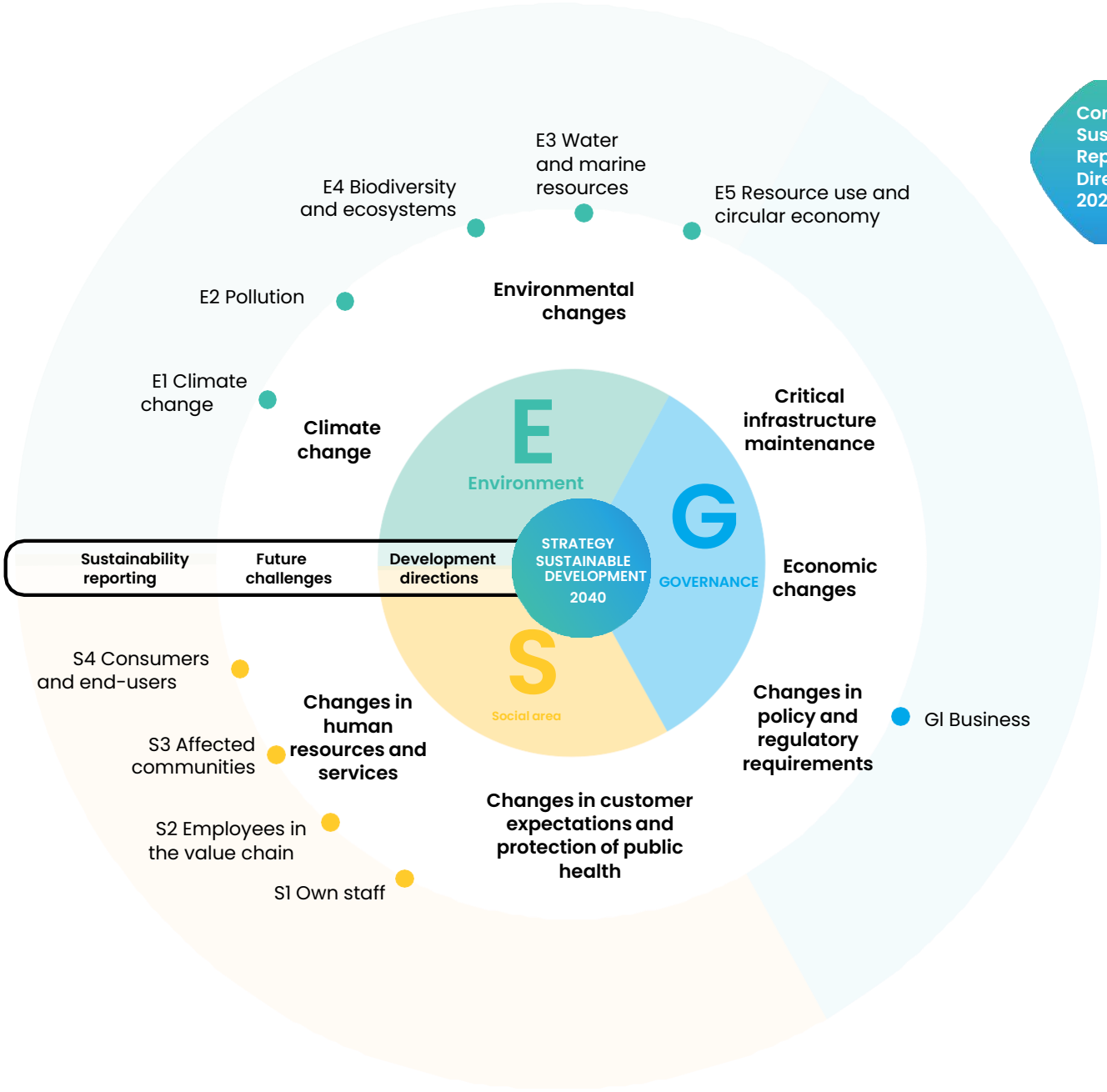
Taking into account stakeholders' opinions and recommendations, "Rīgas ūdens" can make the most appropriate decisions and identify more accurately the improvements needed to achieve its sustainable development goals. The company already provides regular contact with customers, national, municipal and industry institutions, and is looking for new models of engagement for exchange of opinions with suppliers. The company's employees are always an important stakeholder group that is communicated with in a variety of ways to reach everyone.

Employees	Shareholder and its representative	Suppliers, service providers	Customers	Policy makers, regulating and supervisory authorities	Cooperation partners	Society
A stable place to work Fair remuneration Safe working conditions Growth opportunities Support in various life situations	Appropriate corpo- rate governance Meeting strategic goal - non-financial and financial objectives Contribution to implementation of common urban development projects	Reliable cooperation partner Responsible business practices Fair competition Open procurement process	Quality and safe service Supportive customer service Improving digital communication opportunities	Investment in the sectoral development Good practice building initiatives	Research and innovation projects water management sector Funders	Raising public awareness on water resources Education about water management sector Changing habits Transparent information
Consultations Collective consultation Intranet site Surveys Annual evaluation Satisfaction study	Shareholders' Meetings Local government sectoral policy makers' consultations	Contractual relations Public communication interested suppliers' negotiations	Customer portal Communication at the customer centre and by correspondence Customer satisfaction studies Information and education	Engagement in drafting laws and regulations Discussions Data collection and provision of information Operating permits Service tariff approval	Cooperation and involvement in research and development projects Involvement in sectoral policy planning Membership of sectoral NGOs Financial support for the investment plan	Environmental education activities Water school Corporate social initiatives (donations, exhibitions)

7 ASSESSMENT OF SUSTAINABILITY AREAS (ESG)

7

ASSESSMENT OF SUSTAINABILITY AREAS (ESG)



Corporate Sustainability Reporting Directive 2022/2464

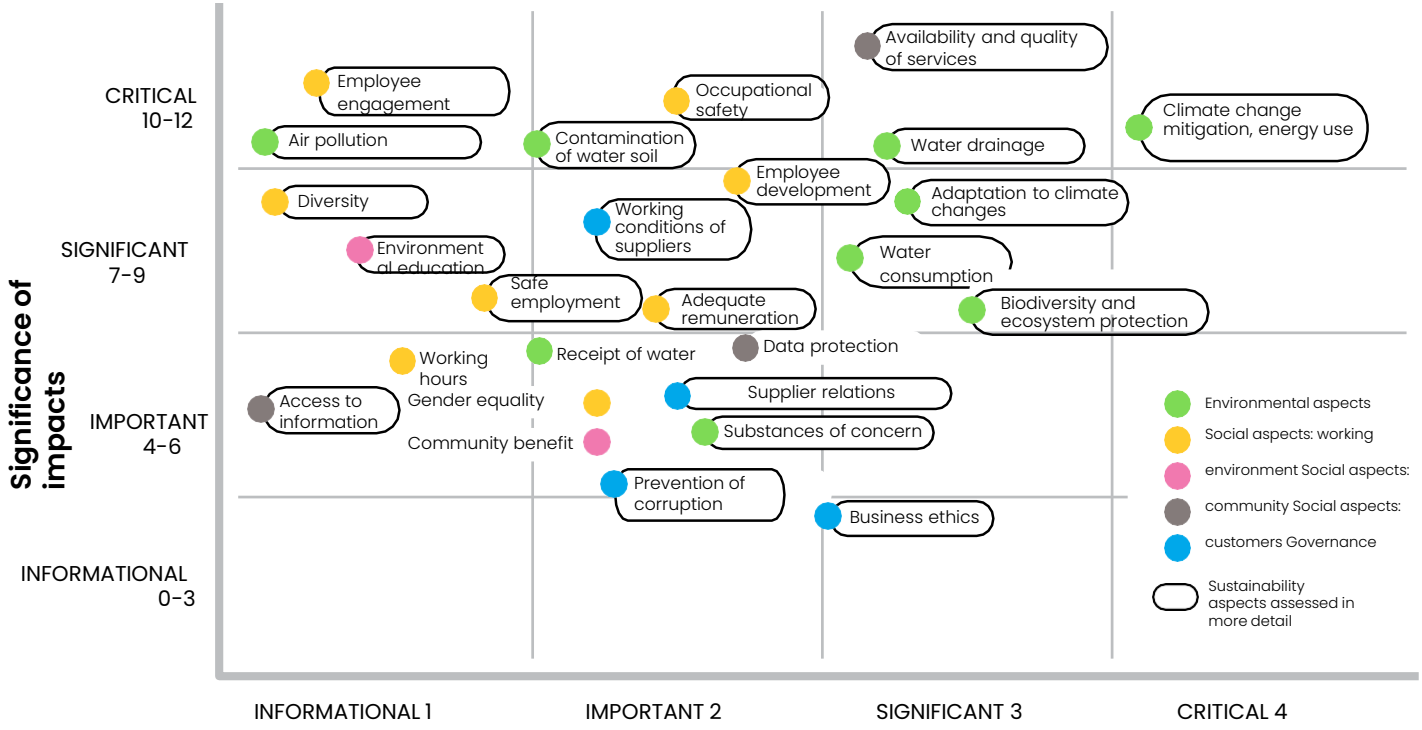
European Sustainability Reporting Standards

7 ASSESSMENT OF SUSTAINABILITY AREAS (ESG)

When designing the Strategy, the company used a double materiality approach[2] - the company needs to analyse its sustainability impacts from two different perspectives, namely, how the planned entrepreneurship business impacts people and the environment, and how sustainability and climate change impact the company (impact on cash flow, financial performance). In this process, we carried out an analysis of the company's operations and business model, as well as an assessment of the value chain and regulatory framework.
Identification of key sustainability areas was based on assessment of national and municipal policy planning documents and sustainable development plans, as well as the opinion of the affected stakeholders was taken into account.

When assessed in relation to the tasks that "Rīgas ūdens" performs under the delegation of the Riga State City local government in the area of public water management services, the sustainability aspects important for "Rīgas ūdens" were identified and, accordingly, the priority areas for the future development of the company were determined.

By assessing material sustainability areas in a structured way, the company not only ensures compliance with the requirements of the Corporate Sustainability Reporting Directive, but also gains an understanding of which aspects of sustainability may affect its operations, including its finances, and which aspects should receive greater attention in the future. This is the basis for sustainable decision-making in the future.



[2] Based on EFRAG guidelines in relation to the dual materiality approach / Implementation guidance for the materiality assessment

8 FUTURE CHALLENGES, RISKS AND OPPORTUNITIES

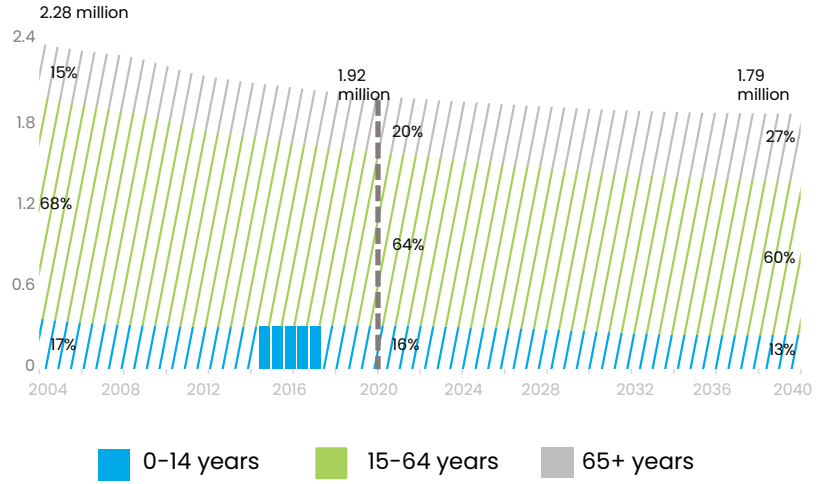
8 FUTURE CHALLENGES, RISKS AND OPPORTUNITIES

Environmental, social and governance (ESG) issues are increasingly clearly linked to the risks and opportunities of business operations. It is important to manage our impacts on the environment and people responsibly, minimising negative impacts and enhancing positive ones. Future challenges up to 2040 include the following changes:

A. climate changes
B. environmental changes
C. changes in human resources and services
D. changes in customer expectations and protection of public health
E. critical infrastructure maintenance
F. economic changes
G. changes in policy and laws and regulations

In the climate area, climate-related risks, mainly extreme values of precipitation, flooding and temperature, will increase. The European Green Deal's climate neutrality target and the initiated reorganisation of regulatory requirements will also contribute to the moving towards climate neutrality in the water management sector. In the environmental area, major regulatory changes are expected with regard to reducing pollution and factors affecting the environment and human health. Higher pollution abatement requirements will in turn lead to increase in energy consumption and GHG emissions.
Part of water management infrastructure is already in a technically inadequate condition, e.g. ~25% of water supply networks and ~20% of sewerage networks are in the risk group according to their technical condition and theoretical lifetime assessment. Further obsolescence of water management infrastructure may outstrip the ability of fundraising, and the necessary tariff increases will affect budget of every household. A large proportion of customers will become increasingly aware of their involvement and responsibility, that their investments by paying higher water management tariffs will deliver environmental improvements to ensure a better living environment for future generations. Population decline, ageing and lack of skilled labour force will be a major challenge in Latvia, which will additionally alternate in Riga with unpredictable development of undeveloped land and an increase in demand for centralised water management services. At the same time, it is to be predicted that, under the optimistic scenario, drinking water consumption may remain without significant changes until 2040, while volume of wastewater is expected to increase, mainly due to the development of the Greater Riga and Riga wastewater agglomeration, as well as changes in precipitation patterns.

Population by age group in Latvia
million and percentage[3]



[3] Ministry of Economics, Medium- and long-term labour market forecast, 2020

8 FUTURE CHALLENGES, RISKS AND OPPORTUNITIES

The most significant impact of future challenges on the operation of "Rīgas ūdens":

A CLIMATE CHANGE

OPPORTUNITIES

a. Develop energy efficiency and renewable energy projects with shorter payback periods, which will contribute to achieving energy neutrality and reducing GHG emissions
b. Increase biogas production and efficiency of use thereof through the development of cogeneration farm
c. Promote the use of solar and geothermal energy
d. Buy Green Energy
e. Assess the possibility of developing the use of thermal energy from treated wastewater
f. Increase the hydraulic capacity of wastewater treatment plants and the retention of wastewater in CKS during rainfall
g. Introduce innovative technologies for efficient infrastructure management and improved climate resilience
h. Support the development of green/blue and rainwater sewerage infrastructure projects to relieve the centralised sewerage system from rainwater
i. Develop CKS monitoring system for flow and level control, including at overflows
j. Develop CKS computer model for precipitation impact management and approval of climate resilience improvement solutions

RISKS

a. Climatic, mainly precipitation, flooding, temperature extremes will increase
b. Monitoring of the pollution load caused by wastewater discharged into the CKS overflows during rainfall
c. Inability to fully prevent the discharge of untreated wastewater into the environment during rainfall for financial and technical considerations
d. Adaptation of CKS to climate change may be "limited" for financial reasons
e. "Rīgas ūdens" cannot significantly affect the development of Riga's green/blue and rainwater sewerage infrastructure to relieve the centralised common sewerage system of rainwaters
f. "Rīgas ūdens"'s planned development may not achieve the climate targets of the Riga SECAP and the planned "Climate City Agreement" within the planned timeframes
g. "Rīgas ūdens" may not achieve climate neutrality by 2050
h. Incidents of deterioration in drinking water quality, including microbiological stability

8 FUTURE CHALLENGES, RISKS AND OPPORTUNITIES

B CHANGES IN THE ENVIRONMENTAL AREA

OPPORTUNITIES

a. Improve wastewater treatment degree and increase hydraulic capacity
b. Prevent customers from discharging rainwater into CKS and achieve their switching to sustainable rainwater management solutions
c. Ensure that industrial companies provide adequate wastewater pre-treatment
d. Develop monitoring system for CKS pollutants, including in overflows
e. Stop sewage sludge treatment in sludge fields, reducing air pollution in the vicinity
f. Reduce the quantity of waste, including broader use of trenchless methods for network renovation and construction
g. Increase in provision of sewerage services in Riga and the Greater Riga, ensuring higher waste-water treatment requirements and improving the environmental condition
h. Develop an Environmental Management System in the company

RISKS

a. The designed capacity of wastewater treatment plants is already exceeded in terms of SV, N_{tot} and hydraulic capacity during rain
b. Control and reduction options for biogenic emissions caused by the wastewater treatment plants
c. Uncontrolled excessive wastewater pollution in CKS
d. The state has not updated its river catch basin risk assessment in line with the new requirements, which may reveal new micropollution
e. Micropollution in wastewaters and wastewater sludge
f. New micropollutant requirements in surface and underground waters: PFAS, microplastics, bisphenol A, pharmaceuticals, etc.
g. Unpredictable development of undeveloped land plots and demand for centralised water management services
h. Deterioration of reputation, increase in sanctions if activities have had a negative environmental impact

8 **FUTURE CHALLENGES, RISKS AND OPPORTUNITIES**

C CHANGES IN HUMAN RESOURCES AND SERVICES

OPPORTUNITIES

a. Immigration is expected to increase significantly, expanding labour market opportunities
b. Labour opportunities will be caused by the replacement demand, which may be ensured by promotion of availability of the engineering and environmental education
c. Although the number of employees will not change significantly, productivity will increase significantly (automation, robotics)
d. The new generation employees will have better digital skills
e. Develop the "Water School" by up-skilling staff, promoting involvement and development
f. Ensure safe and flexible working conditions, work-life balance
g. Develop high corporate governance and implement sustainable development policies
h. Suppliers will change and evolve in line with "Rīgas ūdens" standards and requirements, broadening the understanding of sustainability in the water management area
i. Increase and develop in-house design and construction capacity due to limited supply of services
j. Engage in international research and innovation projects

RISKS

a. Both the total population and number of the economically active residents in Riga will decline, albeit in a slower pace than in the remaining territory of Latvia
b. Ageing of the labour force will continue, with increasing implications for the labour market
c. Demand for skilled workers with higher education will increase
d. Labour force shortages expected in highly skilled occupations - ICT, science and engineering
e. Labour force shortages expected in middle-skilled occupations - construction, plant and machine operators, electrical and electro-technical plant workers, industrial plant operators
f. Necessity to outsource due to lack of labour force and skills
g. Necessity to continuously provide above-average pay to retain staff
h. "Rīgas ūdens" standards, requirements limit the circle of suppliers

8 **FUTURE CHALLENGES, RISKS AND OPPORTUNITIES**

OPPORTUNITIES

a. Expand water infrastructure and promote connections, increasing the number of customers in the Riga wastewater agglomeration
b. Update of Riga's wastewater agglomeration boundaries on regular basis and expand water management infrastructure and promote connections in technically and economically feasible areas
c. Increase the provision of water management services in technically and economically feasible areas in the Greater Riga
d. Educate customers and the public in the area of water management at the "Water School"
e. Promote tap water use
f. Facilitate changes in inefficient habits of use of drinking water
g. Develop smart customer service and communication channels
h. Introduce remote reading of drinking water consumption meters
i. Develop an online monitoring system for drinking water quality
j. Optimise drinking water extraction, preparation and water supply system

D CHANGES IN CUSTOMER EXPECTATIONS AND PROTECTION OF PUBLIC HEALTH

RISKS

a. Low activity of the population to connect to and use centralised water management services
b. Due to customers' lack of environmental knowledge, sewerage usage habits can have a negative impact on CKS performance
c. Lack of public understanding of the company's activities can damage reputation
d. Too low flow rates in main water supply networks impair drinking water quality
e. Deterioration of drinking water quality outside Riga's water service area: networks, actuators, Legionella risks, etc.
f. Newly identified pollutants affecting public health or the environment
g. To improve the quality of water management services, the intensity of maintenance and capital renovation works needs to be increased

8 **FUTURE CHALLENGES, RISKS AND OPPORTUNITIES**

E CRITICAL INFRASTRUCTURE MAINTENANCE

OPPORTUNITIES

a. Develop a Risk Management System, elaborate safety plans and implement resilience measures
b. Implement an IT development strategy to improve the efficiency of infrastructure management
c. Increase the rate of renovation of sewerage networks, resulting in improved quality of service, reduced infiltration, freed hydraulic capacity, increased climate resilience, generating economic benefits
d. Increase the rate of renovation of water supply networks, resulting in improved quality of service, and reduced water losses, generating economic benefits
e. Explore practical options for increasing underground water use
f. Implement the "water safety" plan approach and improve crisis management plans
g. Implementation of CŪS and CKS digital shadows/twins for efficient infrastructure management and improved security
h. Develop CŪS zoning

RISKS

a. EU Directive requirements on resilience of critical entities are not yet implemented in Latvian laws
b. Digitalisation increases cyber-security risks
c. Historical under-investment has led to the obsolescence of part of the infrastructure, which already requires significant financial resources for renovation
d. The water supply system does not have the optimal volume of reservoirs to compensate for the unevenness of drinking water consumption
e. Deterioration of drinking water quality in the water intake
f. Water preparation equipment at the Daugava water preparation plant operates inefficiently, with significantly lower capacity than designed

8 **FUTURE CHALLENGES, RISKS AND OPPORTUNITIES**

OPPORTUNITIES

a. Latvia's domestic policies will be aimed towards boosting economic growth, where growth of national economy will be supported by the planned investments in infrastructure and research
b. Raise finances from funds, issue shares, Green Bonds, introduce private partnership projects to finance development projects
c. Improve planning and identify more environmentally sustainable investment projects in line with EU Taxonomy requirements
d. Allocate Riga City Council dividends to finance development projects
e. Promote research development in the area of water management, introduce innovation and digitisation of processes for cost efficiency
f. Introduce circular economy principles into different processes
g. Increase water management service tariffs to finance infrastructure maintenance and development projects
h. Develop a unified water management in Riga and the Greater Riga

F CHANGES IN ECONOMICS

RISKS

a. Increase in labour force, material, service costs
b. Increase in green energy costs
c. Water management tariff does not cover all the necessary investment projects
d. Tariff increase is required, but it entails negative publicity
e. Increase in lending rates
f. Options of availability of the EU funding after 2027

8 **FUTURE CHALLENGES, RISKS AND OPPORTUNITIES**

G CHANGES IN POLICY AND REGULATORY REQUIREMENTS

OPPORTUNITIES

a. Develop an integrated urban wastewater management plan for Riga State City to improve rain waste-water management in Riga and reduce negative impacts on the CKS during climate extremes
b. Upgrade wastewater treatment plants and ensure higher treatment requirements
c. Introduce sludge thermal treatment due to higher sludge treatment requirements
d. Develop an integrated water leakage reduction plan
e. Introduce the EU Taxonomy requirements for environmental objectives into the assessment of investment projects
f. New requirements can lead to the development of new technologies
g. New requirements will contribute to modernisation of infrastructure and improvement of process management
h. Develop and refine the GHG emission accounting system
i. Implementation of requirement to the stakeholders to account GHG emissions will result in changes of market players who will become environmentally "greener"
j. Sustainable development reporting will improve reputation
k. Gradual shift to RES transport

RISKS

a. Ensuring higher wastewater treatment requirements, including for N_{tot}, P_{tot}, micro-pollution, as well as the expansion of CKS will significantly increase energy consumption and GHG emissions
b. Higher sewage sludge treatment requirements will require investments in other treatment technologies
c. Ensuring higher wastewater treatment, sewage sludge processing and energy neutrality requirements will reduce investments in other areas for infrastructure maintenance and development
d. Unpredictable implementation of the producer responsibility system in Latvia to finance the fourth stage of wastewater treatment
e. Solutions are required to reduce pollution from shared system overflows, which may be limited by technical capacity and fragmented responsibility for rainwater management in Riga
f. Technical restrictions for the placement of urban wastewater storage tanks
g. The current level of water losses is higher than set by the EU Taxonomy, which may not be economically substantiated, and may also exceed the threshold planned in the EU by 2028
h. Requiring suppliers to account GHG emissions could result in reduced competitiveness and more expensive services
i. Transition to RES transport can be uneconomic

9 PRIORITY AREAS AND OBJECTIVES FOR SUSTAINABLE DEVELOPMENT (ESG)

9 PRIORITY AREAS AND OBJECTIVES FOR SUSTAINABLE DEVELOPMENT (ESG)

In order for "Rīgas ūdens", Riga and Latvia as a whole to achieve the European Green Deal goal of climate neutrality by 2050 and transform into a just and prosperous society with a modern and competitive economy, the company's business objectives must also be viewed through a sustainability lens. The Sustainable Development Strategy details approach of "Rīgas ūdens" and climate change mitigation targets to be achieved. This approach also defines our priorities affecting the interests of the environment, society, employees and service users, and sets sustainability targets. Priority development areas and defined objectives of "Rīgas ūdens" are based on the UN Sustainable Development Goals (SDGs), in line with the approach set out in the EU Sustainability Reporting Standards (ESRS) and the EU Corporate Sustainability Reporting Directive (CSRD) to identify material sustainability aspects, analysing future challenges, opportunities and risks until 2040, and are further structured according to the ESG principle into 3 areas:

- Environmental area (E)
- Social area (S)
- Governance area (G)

To address the challenges of the future to ensure sustainable development by 2040, "Rīgas ūdens" has identified 11 priority areas of development, presented in the table below. The priority development areas have 15 key Sustainable Development Goals (SDGs), which are detailed later in this chapter.

	PRIORITY AREAS FOR DEVELOPMENT	FUTURE CHALLENGES: Climate change	Environmental changes	Changes in human resources and services	Changes in customer expectations and protection of public health	Critical infrastructure maintenance	Economic changes	Changes in policy and regulatory requirements
THE ENVIRONMENT (E)	Energy efficiency and development of renewable energy resource production	✓				✓	✓	✓
	Reducing wastewater pollution and improving the environmental condition	✓	✓		✓	✓	✓	✓
	Efficient use of water resources				✓	✓	✓	✓
SOCIAL AREA (S)	Available centralised water management services		✓		✓	✓		✓
	Water supply security and high drinking water quality		✓		✓	✓		✓
	Developed environmental education and improved environmental competence		✓	✓	✓	✓		✓
	Professional expertise and advanced research in water management		✓	✓		✓	✓	✓
	Skilled and motivated employees in a safe working environment			✓	✓	✓	✓	
GOVERNANCE (G)	Responsible corporate governance	✓	✓	✓	✓	✓	✓	✓
	Developed value chain management			✓	✓	✓		
	Stakeholder engagement and impact	✓	✓	✓		✓	✓	✓

9 PRIORITY AREAS AND OBJECTIVES FOR SUSTAINABLE DEVELOPMENT (ESG)

9.01. ENVIRONMENTAL AREA (E)

Development of sustainable operation of "Rīgas ūdens" requires focus on adaptation to climate changes, climate change mitigation, energy efficiency, improved wastewater treatment and efficient water resource management.

The key regulatory requirements that will determine sustainable long-term development of "Rīgas ūdens" will be related to the improvement of urban wastewater management in Riga, adaptation of infrastructure to climate extremes, stricter wastewater treatment requirements, efficient use of resources, increased energy efficiency and production of renewable energy to reduce GHG emissions.

The European Strategic Framework, the driving laws and regulations and initiatives already provide a comprehensive overview of the key issues and identify the future challenges that need to be addressed to promote sustainable development and underline the urgency to act on these issues now, in particular to improve the state of the environment, protect biodiversity and achieve the 2050 European and Latvian climate neutrality target.

9.02. SOCIAL AREA (S)

One of the most important objectives of "Rīgas ūdens"'s sustainable development is the provision of safe and high quality centralised water management services. Significant investments will be required to maintain and expand water management infrastructure to ensure a high quality of service and long-term affordability for customers. Major improvements in future water resource administration and infrastructure management are closely linked to research developments, digitisation and innovation in infrastructure modernisation.

Employees form a constantly highly valued resource, and "Rīgas ūdens" is committed to maintaining a working environment that provides employees with the opportunities for professional development, safe working conditions, competitive remuneration, well-being and promotes equality.

Achieving the sustainability goals also requires improving service users' awareness of environmental issues and water management, so "Rīgas ūdens" promotes access to quality information and environmental education in society.

9.03. GOVERNANCE AREA (G)

"Rīgas ūdens" has a governance structure in place that adheres to corporate governance principles and takes steps to ensure that every stakeholder can be confident that the company is controlled, managed and services are provided to the best possible quality.

In its day-to-day operations, "Rīgas ūdens" strives for a balance between economic benefits, responsible use of resources and the obligations arising from the owner's delegation for the provision of water management services, responsible behaviour towards employees and society in general, as well as care for the environment and compliance with regulatory requirements.

"Rīgas ūdens" focuses on proactive cooperation with suppliers and stakeholders at all stages of the value chain. Regular stakeholder engagement provides the company with a broader perspective and information on stakeholder expectations, including on sustainability issues identified as important by external and internal stakeholders. "Rīgas ūdens" has also already defined the principles of cooperation with suppliers, making it a prerequisite that cooperation partners implement responsible and ethical business practices, respect human rights, labour safety and environmental standards.

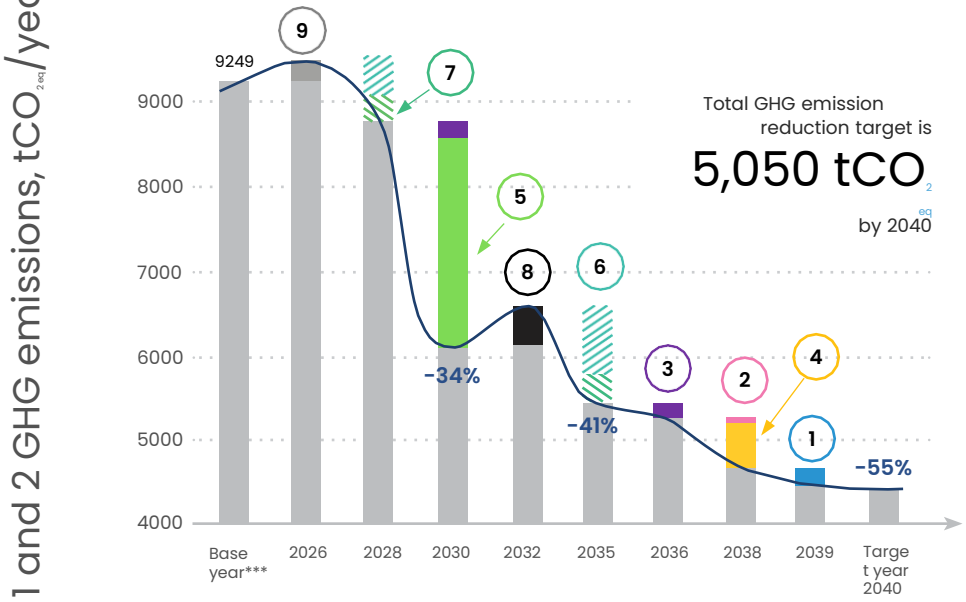
9.01. ENVIRONMENTAL AREA (E)

UN	ESRS	Guiding laws and regulations, planning documents and initiatives	Sustainability aspect	Priority area for development	Objective	Target value 2040 (Baseline value)
	E1 E2	Proposal for a Directive COM(2022)541 Regarding urban wastewater treatment VPP 2027 NEKP 2030 LSKS 2050 RĪGAS 2022.–2027. GADAM NET ZERO CITIES SECAP 2030	Climate change mitigation Energy use Air pollution	**Energy efficiency and the development of renewable energy production**	1 Achieving energy neutrality of wastewater treatment plants	100% RES of gross energy consumption (Average 2020-2023: 26%)
		NEKP 2030			2 Reduce GHG emissions	GHG emissions of scopes 1 and 2 reduced by ≥50% (Average in 2020-2023: 9249 $tCO_{2\,eq}$/year)
					3 Ensure sustainable renovation of sewage networks	≥ 150 km of sewer networks renovated (Average 9.6 km/year)
	E1 E2 E3 E4	Direktīvas priekšlikums COM(2022)541 Green City Accord VPP 2027 NAIP 2027 SECAP 2030 RĪGAS 2022.–2027. GADAM RIGA 2030	Adapting to climate change Water, soil pollution Substances of concern Biodiversity and ecosystem protection Water drainage	**Reducing wastewater pollution and improving the environmental condition**	4 Ensure higher wastewater treatment requirements and increase hydraulic treatment capacity	Improved wastewater treatment degree: ≤0.5 mg/l P_{tot} un ≤8 mg/l N_{tot} * (≤ 1 mg/l P_{tot} and ≤ 10 mg/l N_{tot})
						Hydraulic treatment capacity increased by > 50% (200 000 m³/day)
					5 Reduce discharges of untreated wastewater by improving urban wastewater management in the Riga wastewater agglomeration	Pollution load from wastewater overflows during rain reduced to ≤2% of the annual dry-weather pollution load* (2023: 2.31% by volume*)
	E3	Green City Accord VPP 2027 Direktīva 2020/2184 RIGA 2030	Water consumption	**Efficient use of water resources**	6 Ensure sustainable renovation of water supply networks	≥ 250 km of water mains renovated (Average 15.6 km/year)
						Water losses reduced by ≥30% (2023: 3026 m³/km/year**)

* values will be updated in line with the amendments to EU Directive 91/271 concerning urban waste-water treatment
** values will be updated according to the regulatory requirements on water loss estimation methodologies

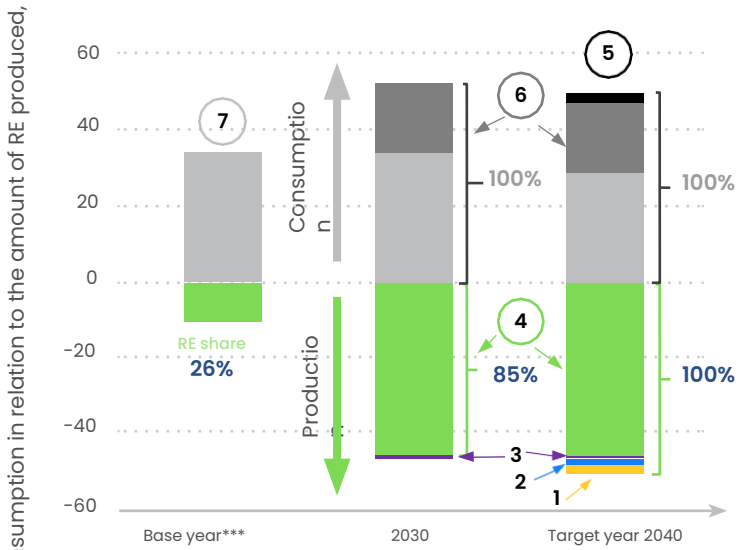
9.01. ENVIRONMENTAL AREA (E)

GHG Emission Reduction Roadmap 2040



1 Purchased Green Electricity
2 Transition to electric vehicles
3 Solar PV electricity
4 Wastewater residual heat potential for self-consumption
5 Biogas CHP electricity and heat
6 Energy efficiency of buildings and optimisation of real estate
7 Energy efficiency and optimisation of industrial processes
8 Growth potential of industrial energy consumption until 2040 **
9 Growth potential of industrial energy consumption until 2030 *

WWTP Energy Neutrality Roadmap 2040



1 Wastewater residual heat potential for self-consumption
2 Green electricity purchased
3 Electricity generated by solar photovoltaics
4 Biogas cogeneration electricity and heat
5 Improvement of tertiary treatment
6 Expanding biogas production
7 Total consumption of fossil energy resources in the WWTP

* Increase in industrial energy consumption until 2030 is mainly due to the expansion of biogas production, CKS and CŪS.
** Increase in energy consumption until 2040 is mainly due to higher wastewater treatment requirements, as well as the expansion of CKS and CŪS.
*** 2020-2023 average

9.02. SOCIAL AREA (S)

UN	ESRS	Guiding laws and regulations, planning documents and initiatives	Sustainability aspect	Priority area for development	Objective	Target value 2040 (Baseline value)
	S4	Direktīvas priekšlikums COM(2022)541 Par komunālo notekūdeņu attīrīšanu; NAP 2027; NAIP 2027; VPP 2027; ŪIP 2027; RĪGA 2030; RĪGAS 2022.–2027. GADAM	Service availability and quality	**Available centralised water management services**	7 Increase availability of centralised water management services	Availability of centralised sewerage services in the Riga wastewater agglomeration ensures collection and treatment of ≥ 98% of the wastewater pollution load* (2023: additional availability of ~7.2 thous. residents of 636,472 in wastewater agglomeration**)
				Water supply security and high drinking water quality	8 Ensuring safe and high quality drinking water	Flushing of water mains at least once every 5 years (2023: every 9.2 years)
	S3 S4	ANO Globālais līguma un korporatīvā sociālā atbildība; NAP 2027; VPP 2027	Environmental education Access to information	**Developed environmental education and improved environmental competence**	9 Educational and awareness-raising activities for different target audiences	≥1 education programme per year implemented (2022-2023: one education programme per year implemented) Number of participants involved in educational activities ≥ 1,000 per year (2023: 500 participants involved)
				Professional expertise and advanced research in water management	10 Involvement in research and development projects in the water management sector	Investment in R&D projects reaches 2% of the amount of investment (Average 2021-2023: 2.3%) Annual participation in ≥1 international research project 2019-2023: 3 projects)

*target values will be updated in line with the amendments to EU Directive 91/271 concerning urban waste-water treatment
** number of declared residents as at 01.01.2024 Values to be updated according to the current situation and the financial resources allocated by the Riga State City Municipality

9.03. GOVERNANCE AREA (G)

UN	ESRS	Guiding laws and regulations, planning documents and initiatives	Sustainability aspect	Priority area for development	Objective	Target value 2040 (Baseline value)
	S1 S2		Employee development Employee engagement Labour safety Safe employment Adequate pay Diversity	**Qualified and motivated employees in safe working environment**	11 Increase workers' well-being and safe employment	Employee satisfaction and engagement index above national average (national average in 2023: 77, "Rīgas ūdens" - 86 of 100 points)
					12 Create an inclusive working environment, promote tolerance and respect for all staff	Incidents of discrimination - 0
	G1		Business ethics Relations with suppliers Suppliers' working conditions	**Responsible corporate governance**	13 The company's governance processes are fully compliant with good corporate governance regulation and best practice	International Corporate Governance Indicators rating above the Baltic average (BICG** average rating in the Baltic States 62%, rating of "Rīgas ūdens" in 2022 - 72%)
				Developed value chain management	14 Create a value chain by selecting suppliers who conduct responsible business, take active care of the environmental and social matters	100% of the suppliers of "Rīgas ūdens" have joined the requirements set in the Suppliers' Code of Conduct for responsible business conduct***
						At least 75% of "Rīgas ūdens" cooperation partners have ESG targets***
						75% of suppliers have GHG targets, perform measurements and provide ESG data sharing***
				Stakeholder engagement and impact	15 Maintain and improve continuous and effective communication with all stakeholders, involving them in decision-making	≥ 3 activity for cooperation with the stakeholders every year (2023: two activities)

* MTS - medium-term strategy
**BICG - Baltic Institute of Corporate Governance
*** baseline value will be set in the MTS taking into account the number of cooperation partners in 2024

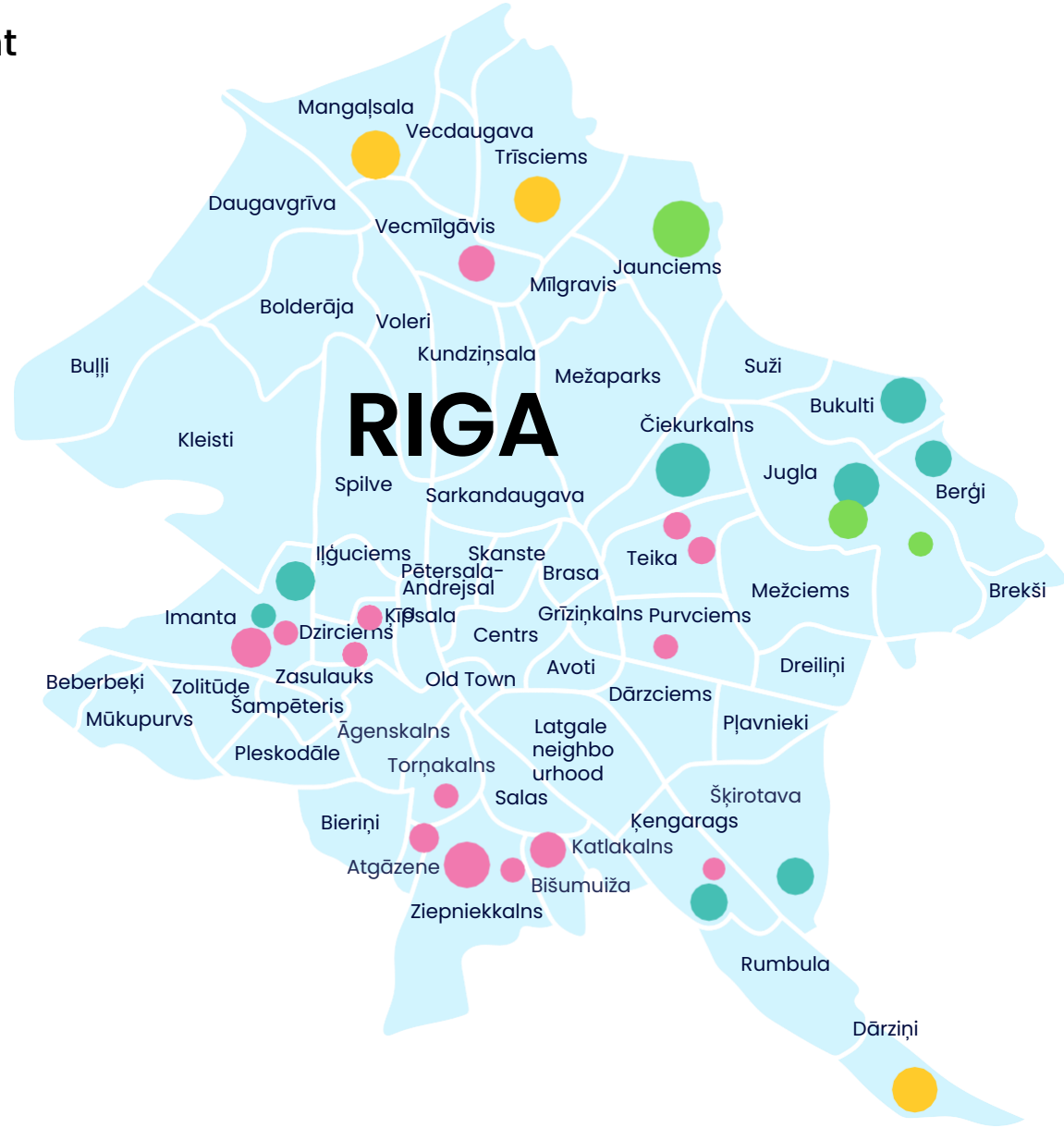
9.03. GOVERNANCE AREA (G)

Roadmap for the development of access to district water management services 2040

To be implemented at municipal expense:

- Water management development 2025-2030
- Water management development 2031-2035
- Water management development 2036-2040

Potential wastewater agglomeration expansion and water management development



10 FINANCIAL FORECASTS AND AMOUNT OF INVESTMENTS

10 FINANCIAL FORECASTS AND AMOUNT OF INVESTMENT

FINANCIAL PERFORMANCE 2024-2040

Increase the future value of the company by identifying 3 key areas:

Profitability

Three-year average
Net profit margin > 7%

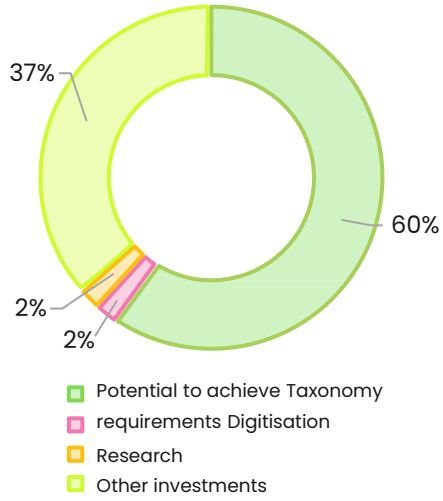
Harmonised profit targets with social responsibility, taking into account the company's risk profile

Capital structure

Maintain 'investment grade' credit rating*

Balance business risks and financial risks, while maintaining the ability to raise funds to realise investments

Sustainable investments



Increase the amount of investments related to the achievement of sustainable development goals from 3% to 60% in
2040

* investment grade ratings

10 FINANCIAL FORECASTS AND AMOUNT OF INVESTMENT

The amount of investments required to achieve the set objectives

>500 million EUR*

Short term – loans from credit institutions and cash flow from operating activities

Medium term – when assessing bond raising

Long term – assess PPP and IPO opportunities

possible EU funds

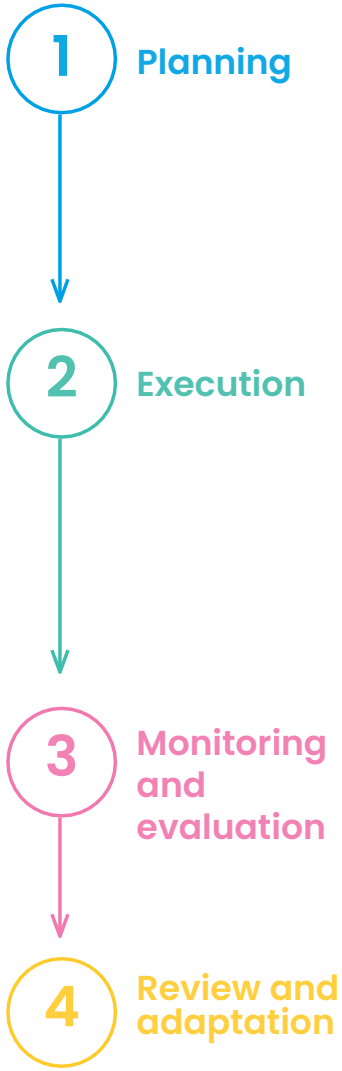
*The amount of investment may change if environmental requirements change.

11 IMPLEMENTING THE STRATEGY AND SUPERVISION

11 STRATEGY IMPLEMENTATION AND EXECUTION MONITORING

Strategic planning is an ongoing process that ensures the achievement of a company's objectives and enables it to adapt to the changing circumstances and challenges over a longer period of time.

Development of a Sustainable Development Strategy is the first step in integrating sustainability aspects into "Rīgas ūdens"'s internal processes to ensure that the sustainability approach is not just a stand-alone tool, but in fact a catalyst for any business decision that determines future development



"Rīgas ūdens" started the planning process by assessing the current situation, identifying requirements, regulatory framework, scope of higher level water sector planning documents, assessing the impact, risks and opportunities (double materiality) of sustainability aspects of the company's key areas. Relevance was assessed across the entire value chain of the company and also with the involvement of stakeholders. As a result, the relevant company's sustainability aspects were identified and evaluated within the context of non-financial objectives set for the company, identifying individual priority areas for development, goals to be achieved and target values in 2040.

Goals of the Sustainable Development Strategy will be detailed in "Rīgas ūdens"'s Medium-Term Operational Strategy 2025-2030 and the next two planning periods. For each year of the medium-term operational strategy, "Rīgas ūdens" will develop a short-term (annual) operational plan. In the essential aspects, "Rīgas ūdens" will set specific targets and measurable indicators for the medium term and the reference year. During these phases, the company will assess what measures (organisational, technological, human resource management) are required to implement the Strategy, and ensure communication on the Strategy to promote engagement in the implementation of the Strategy at management and employee levels.

The Company supervises the Strategy at all levels of management, assessing progress of implementation of the Strategy and making changes to operational plans accordingly. Implementation of the Strategy and assessment of performance shall take place once a calendar year in accordance with the internal requirements of "Rīgas ūdens" on the development of strategic documents and supervision of performance.

The long-term development strategy will be reviewed at least every five years, with a view to planning the medium-term operational strategy for the next phase.

12 LEGEND

AER	renewable energy resources
UN	United Nations
CKS	centralised sewerage system
Covenant of Mayors	EU Climate and Energy Pact of Mayors
CŪS	centralised water supply system
ES	European Union
ESG	environmental, social and governance area
ESRS	EU Regulation 2023/2772 on sustainability reporting standards
CSRD	EU Directive 2022/2464 on corporate sustainability reporting
EU Taxonomy	EU Regulation 2020/852 to promote sustainable investment and EU Regulations 2021/2139, 2023/2486
Green City Accord	European Green Cities Agreement
ICT	information and communication technologies
Climate City Agreement	EU mission "100 smart and climate-neutral cities by 2030" contract
WWTP	wastewater treatment plants
LSKS 2050	Latvia's strategy for the achievement of climate neutrality 2050
NAIP 2027	Wastewater Management Investment Plan 2021-2027
NAP 2027	National Development Plan of Latvia 2021-2027
NEKP 2030	National Energy and Climate Plan of Latvia 2021–2030
Net Zero Cities	EU mission "100 smart and climate-neutral cities by 2030"
N_{tot}	total nitrogen
P&A	research and development
P_{tot}	total phosphorus
Riga, 2030	Riga Sustainable Development Strategy 2030
Rīgas ūdens	LLC "Rīgas ūdens"
SECAP 2030	Riga State City Sustainable Energy and Climate Action Plan 2022–2030
SEG	greenhouse gases
SV	suspended substances
ŪIP 2027	Water Supply Investment Plan 2021-2027
VPP 2027	Environmental Policy Guidelines 2021-2027
Green energy	energy produced from renewable sources
European Green Deal	a set of policy initiatives aimed at putting the EU on the path to a green transformation towards the ultimate goal of climate neutrality by 2050