

Standard Summary

This document supplements the regulations for the use of the ACT4WATER certification marks: “**Water+**” for offsetting projects, “**Water Positive**” for organizations, and “**Water Neutral**” for activities, locations, or products.

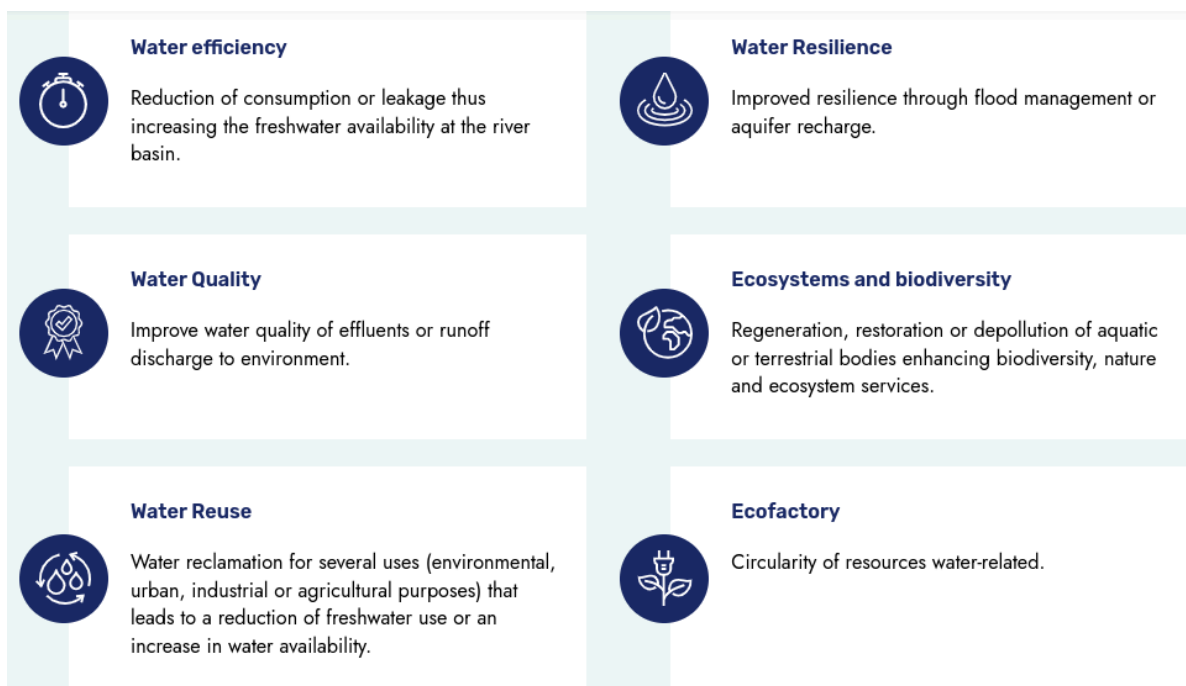
Definition of Positive Water Credit

Positive Water Credits (**CAPs, Credit Aqua Positive**) are a unit of measure used to quantify the environmental and social benefits of water footprint offset projects. CAPs, therefore, represent a measurement of reduced impact on water resources associated with projects, actions, or initiatives developed by public or private entities and are equivalent to **1,000 m³ of water footprint savings**. CAPs can be acquired by entities seeking to offset their water footprint by supporting offset projects, contributing to a more sustainable water management and contributing to adaptation to climate change..

A water footprint saving can be established when, compared to a baseline scenario, one of the following occurs:

- Reduction in the volume of fresh water used for a specific purpose, making it available within the watershed
- Improvement in the quality of water discharged into the receiving environment,
- Improvement in the quality of the water body.

Initiatives that may contribute to water footprint savings include projects of the following types:



How a Positive Water Credit is Calculated

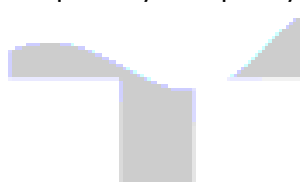
Positive Water Credits are calculated based on the savings from each action in terms of water footprint saved, at a rate of 1 CAP = 1,000 m³ of water footprint saved.

There are two standard methods for calculating the water footprint: the Water Footprint Network manual and the ISO 14.046, which is based on Life Cycle Assessment (LCA). For all offset projects, the calculation method for water footprint savings must consider both methodologies. Therefore, it will be specified as CAPs when using the Water Footprint Network metric (water footprint pressure, m³ saved), while, when using ISO 14.046, which provides water use impacts, it will be specified as CAPs equivalent (water footprint single score impact, m³ equivalent saved).

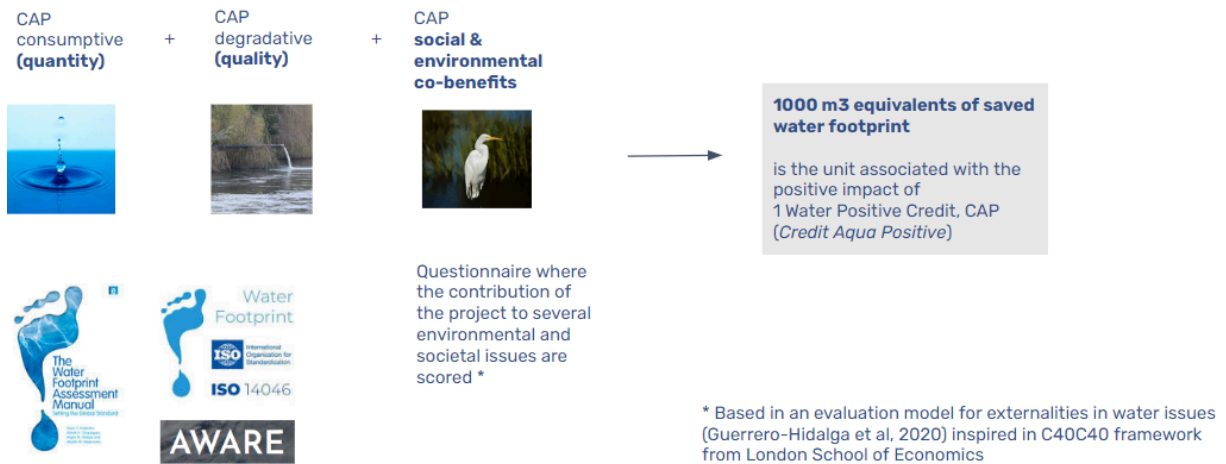
In this way, the **CAPs associated with resource savings or water efficiency** of a project will be calculated by applying both methodologies, given that for the water footprint balance of organizations, both indicators, m³ and m³ equivalent, may be required. In the case of projects in basins with water scarcity, for organizational balances when applying to a Water Positive certificate afterwards, it is recommended to use the water footprint method (ISO 14.046). This method involves applying the AWARE life cycle impact characterization methodology, considering not only the volumetric benefit of an action but also a correction based on the water stress index of the basin where the action takes place.

Additionally, **CAPs will also be evaluated for projects that improve water quality** in both methodologies, WFN and ISO 14.046. With WFN the focus of the analysis will be changes implied mainly on the grey and blue water footprint whereas with ISO 14.046 the single score resulting from the water degradation impacts reduction will be accounted for. For projects with significant positive impact on degradation, for organizational balances when applying to a Water Positive certificate afterwards, it is recommended to use the water footprint method (ISO 14.046), which also involves using the AWARE life cycle impact characterization methodology. This provides a more accurate characterization of each pollutant contributing to the improvement of water body quality.

Finally, to also consider the cross-effects of actions on other sustainability aspects, a scoring method is used to evaluate **the action's contribution to other social and environmental aspects**. This is done through a questionnaire completed by the project developer. This questionnaire and scoring method are based on a methodology published by Guerrero-Hidalga et al. 2020 for assessing environmental and social externalities. After scoring, a multiplier factor for CAPs is applied to the total CAPs obtained from volumetric and degradation benefits. This multiplier factor may not exceed a 15% increase of the CAPs obtained from the water footprint savings analysis. Thus, the main benefit of an offset project remains the contribution in quantity or quality improvement of the water body



where the project is developed, while this factor aims to recognize positive effects on biodiversity, human well-being, and other ecosystem services of the action.



How the cost of a Project is assigned and when the Water+ certification can be obtained

In general, there are two distinct cases: a request for validation of anticipated CAPs to develop a new offset project (Ex-Ante CAPs) or a request for recognition of CAPs for compensations achieved through already started or completed projects (Ex-Post CAPs).

1. Project Pending Execution Requesting for Project Certification and CAPs in Advance

For the certification process, the project developer must provide detailed information on the expected costs to be assigned to the tasks foreseen. These can include, capital expenditure (CAPEX) structure for project development, along with an estimate of annual operating and maintenance costs (OPEX) for execution. Additionally, technical descriptive documentation on functionality and a justified estimate of the project's lifespan must be submitted.

The project developer may include in the cost structure any expenses incurred in the design, construction, operation, and maintenance phases, including consulting and verification services necessary to qualify for Act4water Water+ certification.

Using this information, an estimated CAP price is calculated based on the total project value and the total number of CAPs generated over the project's useful life, annualized and discounted on an interest rate, accordingly.

It is possible to obtain WATER+ certification of CAPs in advance (Ex-ante CAPs) provided there is a formal commitment to annually re-evaluate the project. This re-evaluation adjusts the number and price of CAPs generated each year (at year-end) by comparing estimates with actual data. The ability to certify Ex-ante CAPs with Water+ facilitates the

formalization of public-private agreements to carry out projects within a clear collaborative framework. This approach establishes the expected CAPs corresponding to an organization's economic contribution to the project developer, enabling project initiation while providing assurance to all parties involved

To calculate the CAP price, if CAPEX and OPEX are both claimed, a binomial formula is used, differentiating between a fixed and a variable price component. The fixed component is set by annualizing the CAPEX, while the variable component is based on estimated annual OPEX. The overall costs, properly discounted with an interest rate, are then compared to the estimated CAPs. At year-end, upon finalizing the water footprint savings calculation, the variable price is adjusted based on the actual number of CAPs generated and costs incurred.

The issuance in advance of CAPs associated with the initial investment recognizes the need to develop or build the project, to further generate CAPs throughout its useful life. Adjustment through the variable component ensures rigor in the offset system by validating calculations with real data yearly.

If CAP certification is provided in advance to formalize agreements or transactions to start the project, the maximum period for setting a €/CAP price and advancing certified CAPs will be 5 years, provided the project's useful life exceeds 10 years, even if the project's useful life is longer.

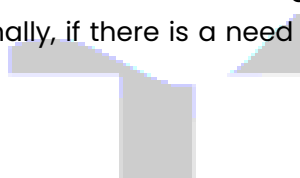
2. Existing Project in Operation and Maintenance Phase

Projects already underway when applying for WATER+ certification must provide the same documentation as in the previous case but with actual year-end data, retroactively, for all years for which they wish to obtain CAPs.

Under no circumstances is the goal of ACT4WATER to certify and place on the voluntary market CAPs that have already been generated previously and/or funded by a public entity. In such a case, the project developer must provide evidence of an agreement with the public entity that compensated them for that action to reinvest the revenue from the sale of the CAPs into other activities of the same nature within a maximum of 2 years following the sale of the CAPs. The project developer must submit supporting documentation to Act4water for this purpose.

3. Annual Monitoring of Accredited Water + Projects

Projects with Water+ certification must undergo an annual re-evaluation to demonstrate that the project continues to generate the estimated benefits in cases of Ex-ante certification, and present an adjusted balance of CAP generation relative to the baseline, which will be cumulative. Additionally, if there is a need to adjust the estimated CAP price,



the cost structure must be resubmitted and verified based on actual data rather than estimates in cases where in advance certification was chosen.

In all cases (1, 2, and 3), a guarantee fund is established, which may be increased based on risk assessment in cases of advance certification. A risk assessment of the project must be submitted within the Project report.

CAP Balance for Water Positive Organization Certification

To qualify for Act4water certification at the Water Positive level, an organization must submit a technical report that includes its CAP corporate balance. This will involve, on one hand, assessing the organization's direct water footprint (WFN or ISO 14046) and converting it into the number of Positive Water Credits (CAP or CAP equivalent) required to achieve direct water positivity. The "CAPs need" value will be based on the unit referred to the organizational water footprint calculation (m³ according to WFN or m³ equivalent according to ISO 14046).

CAP Balance for Water Neutral Certification

To qualify for Act4water's Water Neutral certification, it is specified that for products/sites/events with an indirect water footprint exceeding 80% , CAPs associated with both direct and indirect water footprints must be offset to achieve neutrality.

