

LETTER FROM THE CEO



Dear Fellow Stakeholders,

Over the last year, I have seen tremendous value in embracing Environmental, Social, and Governance (ESG) principles wholeheartedly. While not all organizations and investors have aligned with this view to date, I believe a strong ESG program will soon be an integral part of doing business. Virtually every country across the globe has committed to transforming the way the world operates, aiming to meet the ambitious 2° Celsius warming limit of the Paris Agreement. In a competitive labor market, employee expectations of their employers are evolving rapidly. Critically, these trends require new approaches to corporate governance and risk management.

Energy Recovery is committed to being an ESG leader, both in our own operations and in the products we develop. Although we are still early in our ESG journey, this work has enhanced our alignment as a team and helped articulate our competitive advantage as a company.

We are also pleased to see this work recognized by others. Energy Recovery received an "A" rating from MSCI, up year-over-year from "BBB," leading to our inclusion for the first time in the MSCI Global Small Cap ESG Leaders Index. Our inaugural ESG report, released last year, was also named second runner-up for "Best 1st Time Report" by Corporate Register, the world's largest directory of corporate responsibility reports.

As promised, we have accelerated our ESG efforts over the past 12 months, the results of which we are excited to share in this report. Earlier this year, we conducted a comprehensive materiality assessment, engaging with stakeholders to identify the highest priority ESG issues for our business. Based on these findings, we developed ESG goals that tie clearly to our business objectives and our ability to create value for all stakeholders.

We established goals in four thematic areas – **Employees, Environmental & Climate Change Risks, Innovation & Opportunity, and Products**. We believe our focus in these areas will strengthen our ability to reduce the climate impacts of our business and our customers' operations and to advance our vision of diversified, sustainable growth. Select goals include:

- Understanding our own climate-related risks and opportunities better prepares us for the future. To this end, we are committing to report our climate-related strategy and management protocols in alignment with the Task Force on Climate-related Financial Disclosures recommendations by 2024.
- We have long valued our ability to deliver products that our customers can trust. To continue to drive performance on this key success metric, we will begin public disclosure of our rate of warranty events with a goal to maintain this metric at less than 1% of product revenue.
- To ensure we can execute on our strategy, we must continue to invest in our workforce. With that in mind, we aim to maintain our retention rate, a proxy for overall workforce engagement, above 90% each year.
- From our 2019 baseline, we plan to double emissions reductions generated from the use of Energy Recovery products by the end of 2025.

This last goal speaks to the incredible power and potential of our pressure exchanger technology, which we leverage to develop products that make industrial processes more efficient and sustainable. Our products not only provide environmental benefits, but also offer customers an incredible return on investment by reducing their operating costs over the long term. As our stakeholders already know, our PX® Pressure Exchanger® remains a critical component in addressing global water needs in an affordable manner, while also reducing energy consumption and emissions of desalination systems. But this is just the beginning.

We have pursued a strategy of disciplined and diversified growth with our pressure exchanger technology at the center. For example, our recent development of our Ultra PX™ energy recovery device can significantly reduce costs and energy consumption associated with minimal liquid discharge (MLD) and zero liquid discharge (ZLD) water treatment applications for industrial wastewater.

China, for example, is now requiring industrial facilities to adopt MLD and ZLD, in which most to all wastewater is purified and recycled, leaving little to no discharge at the end of the treatment cycle. With the Ultra PX, the economics of MLD and ZLD are far more appealing, which we believe will drive adoption of more sustainable industrial wastewater treatment practices. To date, we have received project awards from lithium ion battery manufacturing, chemical manufacturing, natural gas, and landfill leachate facilities in China, and a chemical manufacturing plant in India.

A new, groundbreaking application of our pressure exchanger technology is the PX G1300™ (PX G), designed to drive the transition in refrigeration from legacy hydrofluorocarbon (HFC) to green carbon dioxide-based systems. If left unchecked, HFCs are projected to increase global temperatures by a half-degree Celsius by 2100. Governments around the world, including the United States and China, have initiated the phaseout of HFCs. We believe the PX G can make this transition to carbon dioxide more financially attractive for retailers, significantly contributing to the reduction of climate-damaging HFCs.

Our success, including our recent progress, is driven by our people. In the face of continued challenges brought about by COVID-19, we are emerging as a stronger team and with greater appreciation and respect for one other.

The unforeseen events of 2020 have also shone a positive light on our ability to navigate through uncharted waters and to adapt effectively to changing circumstances around us.

The future of Energy Recovery is bright. With our ESG program and goals serving as our "North Star," we expect to continue to thrive and grow. We are proud to tell our children and grandchildren that Energy Recovery is working to make the world a better place.



Robert Mao

Chairman of the Board, President,
and Chief Executive Officer of Energy Recovery