



**Accelerating
Industrial
Sustainability**



energy recovery[®]

2020 ESG REPORT

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.

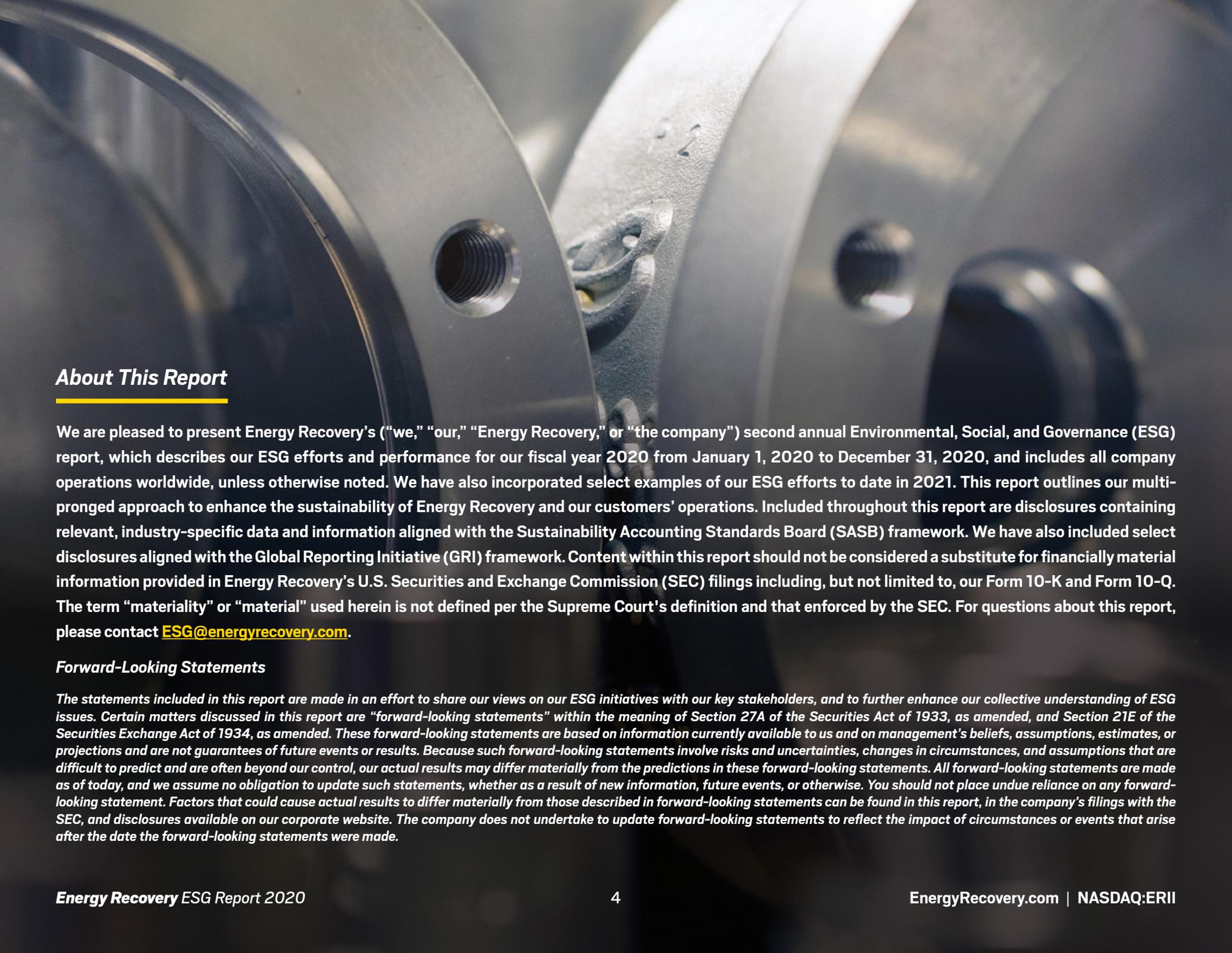
The unforeseen events of 2020 have also shone a positive light on our ability to navigate through uncharted waters and to adapt effectively to changing circumstances around us.

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



About This Report

We are pleased to present Energy Recovery's ("we," "our," "Energy Recovery," or "the company") second annual Environmental, Social, and Governance (ESG) report, which describes our ESG efforts and performance for our fiscal year 2020 from January 1, 2020 to December 31, 2020, and includes all company operations worldwide, unless otherwise noted. We have also incorporated select examples of our ESG efforts to date in 2021. This report outlines our multi-pronged approach to enhance the sustainability of Energy Recovery and our customers' operations. Included throughout this report are disclosures containing relevant, industry-specific data and information aligned with the Sustainability Accounting Standards Board (SASB) framework. We have also included select disclosures aligned with the Global Reporting Initiative (GRI) framework. Content within this report should not be considered a substitute for financially material information provided in Energy Recovery's U.S. Securities and Exchange Commission (SEC) filings including, but not limited to, our Form 10-K and Form 10-Q. The term "materiality" or "material" used herein is not defined per the Supreme Court's definition and that enforced by the SEC. For questions about this report, please contact ESG@energyrecovery.com.

Forward-Looking Statements

The statements included in this report are made in an effort to share our views on our ESG initiatives with our key stakeholders, and to further enhance our collective understanding of ESG issues. Certain matters discussed in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on information currently available to us and on management's beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Because such forward-looking statements involve risks and uncertainties, changes in circumstances, and assumptions that are difficult to predict and are often beyond our control, our actual results may differ materially from the predictions in these forward-looking statements. All forward-looking statements are made as of today, and we assume no obligation to update such statements, whether as a result of new information, future events, or otherwise. You should not place undue reliance on any forward-looking statement. Factors that could cause actual results to differ materially from those described in forward-looking statements can be found in this report, in the company's filings with the SEC, and disclosures available on our corporate website. The company does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made.

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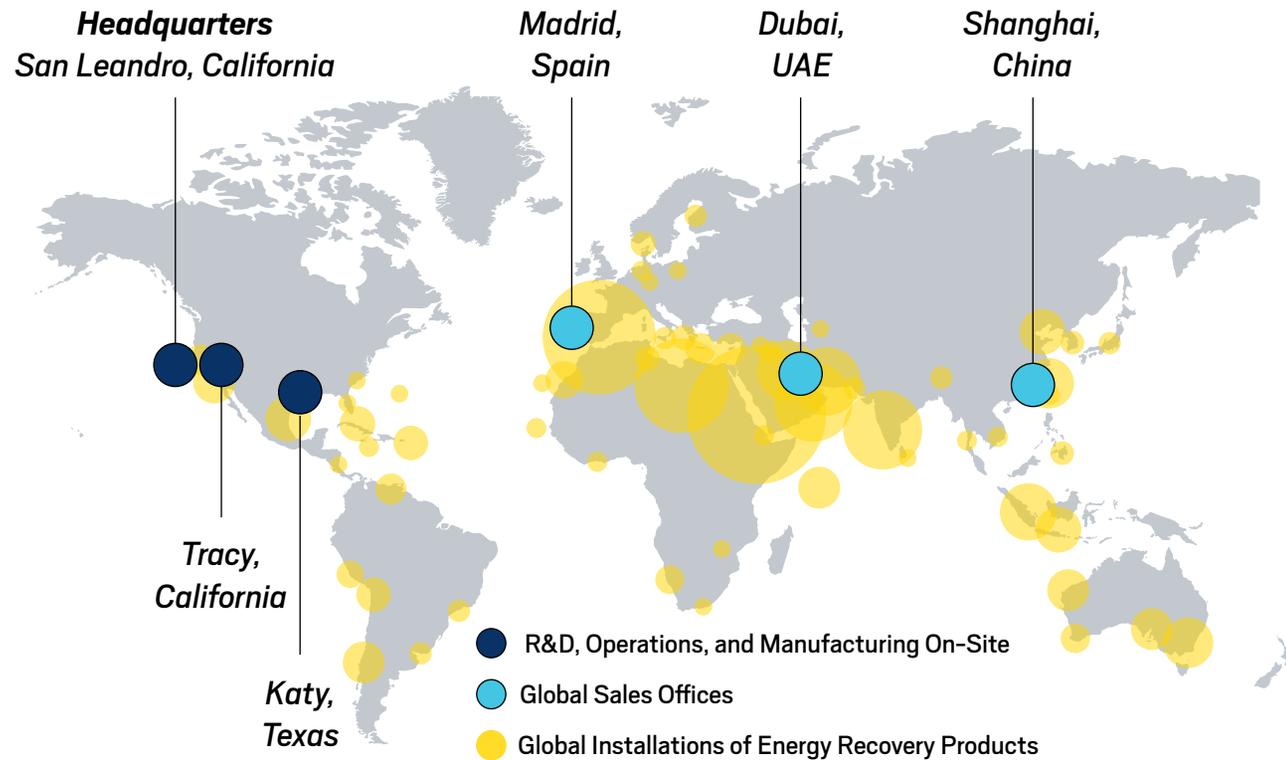
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Energy Recovery at a Glance

216 Employees **\$92M** Product Revenue Employees Located in **9** Countries

Energy Recovery creates technologies that solve complex challenges for industrial fluid-flow markets worldwide. Building on our pressure exchanger technology platform, we design and manufacture solutions that make industrial processes more efficient and sustainable. What began as a game-changing invention for desalination has grown into a global business accelerating the environmental sustainability of customers' operations in multiple industries. Headquartered in the San Francisco Bay Area, we are a global team with sales and on-site technical support available worldwide. We have in-house research & development (R&D) and manufacturing, including vertically integrated ceramics manufacturing, in several locations.



Core Values



2020 Highlights

26TWh *Saved in Electricity Consumption**

12.5M *Metric Tons of Carbon Emissions Avoided**

\$2.6B *Saved by Customers in Energy Expenses**

98% *of Energy Recovery Product Revenue from Energy Efficiency-Related Sources*

Governance Highlights

- Energy Recovery adopted, and our shareholders approved, the phased declassification of the Board of Directors over a three-year period, with all directors subject to election on an annual basis starting in 2023
- Goal to increase diversity by adding two additional female directors to our Board in 2021
- Adopted proxy access rights for shareholders
- Board has a lead independent director
- 100% independent Board committees
- Proactive outreach to current and prospective investors each quarter

See our **Form 10-K** for more information on our business and financials.



Ratings and Recognition

 <p>MSCI ESG Rating "A"</p>	 <p>Second runner-up for "Best 1st Time Report" by Corporate Register</p>	 <p>Sustainalytics ESG Risk Rating – Top quartile of the machinery industry as of June 2021</p>	 <p>Award nominee US 2021 Short List for "Best Overall Investor Relations (Small Cap)" by IR Magazine</p>
 <p>MSCI ESG Small Cap Leaders Index</p>	<p>Included in San Francisco Business Times' list of the fastest growing middle market companies in the Bay Area</p>	<p>#16 in Forbes' Best Small Companies 2021 List</p>	 <p>Featured speaker at Reuters Responsible Business 2021 conference</p>

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Industries and Markets

Industry	Markets	Key Benefits Provided				
		Energy Conservation	Lower Emissions	Reduced Costs	Operational Safety	Waste Reduction
	<ul style="list-style-type: none"> → Seawater Desalination → Brackish Water Desalination 	✓	✓	✓		
	<ul style="list-style-type: none"> → Industrial Wastewater Treatment 	✓	✓	✓		
	<ul style="list-style-type: none"> → Natural Gas Processing 	✓	✓	✓		
	<ul style="list-style-type: none"> → Well Completion 		✓	✓	✓	✓
	<ul style="list-style-type: none"> → Commercial and Industrial Refrigeration 	✓	✓	✓		

Our Core Technology – The Pressure Exchanger

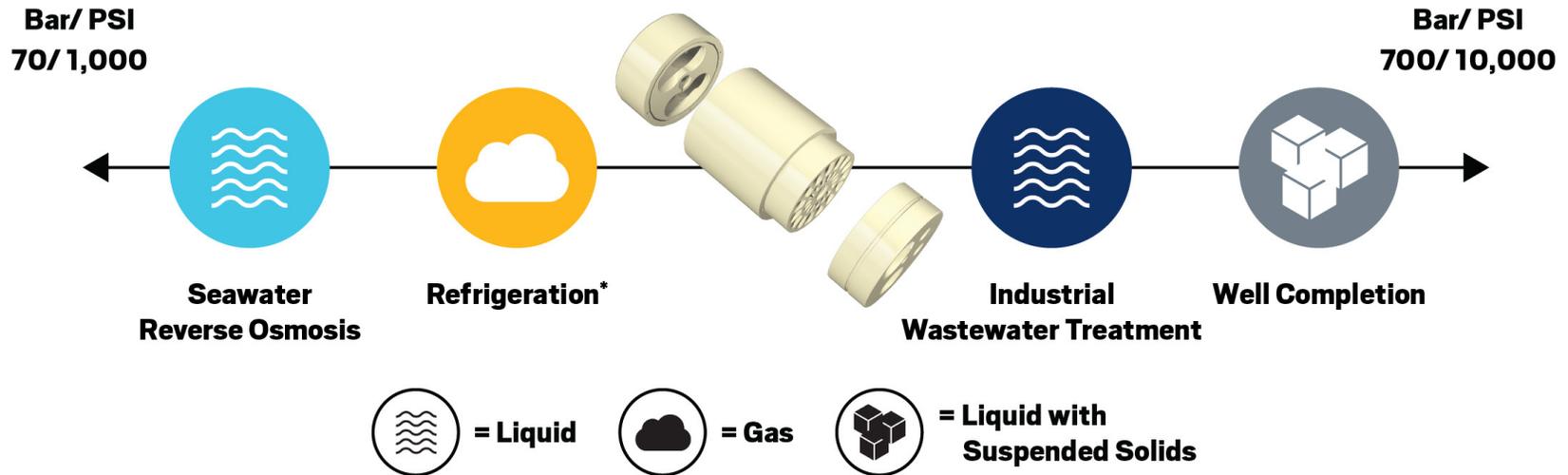
Our pressure exchanger technology works as a platform to build product applications and is at the heart of many of our products. This technology, which generates little to no emissions when operating, recycles otherwise wasted pressure energy within industrial systems, lowering costs, saving energy, reducing waste, and minimizing emissions.

How does it work? Our pressure exchanger technology acts like a fluid piston, transferring energy between high-pressure and low-pressure liquid and/or gas through continuously rotating ducts, with near-perfect efficiency. It has only one moving part, which boosts reliability – the more moving parts in a mechanical system, the greater chance something could break.

The original product application – the PX[®] Pressure Exchanger[®] (PX) – was a major contributor to the advancement of seawater reverse osmosis desalination (SWRO), significantly lowering the energy intensity and cost of water production globally. The PX is up to 98% efficient, operates with minimal, if any, maintenance, and outlasts most other components of the system in which it is incorporated. The ceramic components of the PX are highly durable, and after 25 years, early models are still running strong.

Today we are applying our core technology in new and important ways, building new products to accelerate environmental sustainability across more industries.

Pressure Exchanger Technology Operating Range



**Pressure exchanger technology used in refrigeration can handle multiple phases of CO₂ (liquid, gas, and supercritical fluids)*

Our Approach to ESG

From our innovative products that transform industries to how we do business around the world, Energy Recovery is unwaveringly focused on how we can best make a difference. We believe that our customers do not have to sacrifice quality and cost savings for sustainability and are committed to developing solutions that drive long-term value – both financial and environmental.

Sustainability has been part of our business long before the formal adoption of our ESG program in 2020. As a result, our approach to ESG is well aligned to our business strategy.

Materiality Assessment

Since the publication of our inaugural ESG report, we have continued to develop our ESG efforts in a manner defined, guided, and measured by stakeholder priorities. Central to this effort, Energy Recovery underwent a comprehensive strategic review. The six-month assessment process, facilitated in partnership with a third-party consultant, included in-depth research and extensive engagement with key stakeholders, including our internal leaders, investors, and Board of Directors.

Energy Recovery engaged with a wide swath of shareholders, as well as a diverse cross section of employees, including members of human resources, operations and manufacturing, our business operating divisions, ESG strategy team, and executive leadership. Our extensive engagement allowed us to identify with conviction the topics within E, S, and G that are most material to our stakeholders.

The materiality assessment involved four stages: peer identification and benchmarking, material area and topic identification, stakeholder engagement, and analysis and finalization of material topics. We rigorously selected our peer group for benchmarking purposes, reviewing peer materiality assessment outputs and key topics of relevance from the Sustainability Accounting Standards Board, Global Reporting Initiative, and Task Force on Climate-related Financial Disclosures (TCFD). We then aggregated preliminary topics, developed and completed stakeholder surveys and questionnaires, and recommended a preliminary set of key areas and topics across E, S, and G.

In all, we studied over 70 ESG topics, measuring their importance to shareholders, employees, customers, and rating agencies, and assessing their influence on the success of our business. Fourteen key ESG-related topics emerged as most important to Energy Recovery (illustrated in the materiality assessment matrix on the next page).

Of the 14 key topics, Employees, Environmental & Climate Change Risks, Innovation & Opportunity, and Products were deemed most material for further improving Energy Recovery's current ESG performance.

Materiality Assessment Matrix



This chart provides brief definitions of each of the 14 key **E S G** topics

Material Topic	Focus
Environmental & Climate Change Risks	Physical risks, such as rising sea levels, climate impacts of our business mix, critical materials risks
Innovation & Opportunity	Developing diversified solutions to favorably impact energy consumption in addition to associated cost savings for end users
Operational Impact & Management	Waste management, energy management, emissions and air management, among others
Communities	Includes community investment, disaster response, and local impact
Customers	Social impact of products and customer relationship management
Employees	Overall employee health and wellness, safety, training and development, and benefits
Products	Product safety, reliability, and quality control
Suppliers	Supplier worker conditions, human rights, and sourcing
Board Composition	Board structure, diversity, independence, size, and expertise
ESG Oversight	Stakeholder engagement, ongoing ESG education, and oversight of ESG reporting and sustainability performance
Ethics & Compliance	Bribery and corruption, conflicts of interest, marketing and tax transparency
Executive Incentives	Executive to median pay, long-term incentive ties, long-term incentive vesting structure
Shareholder Rights	Proxy access, right to appoint directors, and declassified Board of Directors
Systemic Risk Oversight	Cybersecurity, succession planning, and climate change preparedness

While our materiality assessment output indicates greater priority for Employees, Environmental & Climate Change Risks, Innovation & Opportunity, and Products, we view all 14 topics as crucial to the success of our business and our stakeholders. As such, each topic is considered throughout this report.

We expect this materiality assessment to guide our ESG program for the next two to four years as we continue to build a robust program that aligns with our business strategy and reflects our stakeholders' priorities. As always, we will continuously evaluate our business, ongoing feedback from stakeholders, and the broader business landscape, adjusting our priorities as we progress along our sustainability journey.

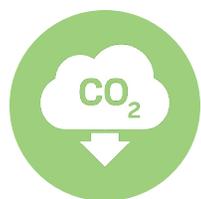
Holding Ourselves Accountable with KPIs and Meaningful Goals

Priorities and a plan, of course, do not necessarily end with results. To address this concern, we are holding ourselves accountable – and enabling our stakeholders to hold us accountable – through meaningful top-line goals and specific, measurable Key Performance Indicators (KPIs).

Our ESG goals, which we set following completion of our materiality assessment, focus on our top four ESG topics: Employees, Environmental & Climate Change Risks, Innovation & Opportunity, and Products. Some include deadlines for achieving specific ESG-related outcomes. Each is supported by a series of associated KPIs.

These KPIs build on those included in our inaugural ESG report published last year and were selected through our materiality assessment process. Above all, the KPIs are designed to enable transparency, equipping our stakeholders to adequately evaluate our ESG performance over time.





Innovation & Opportunity

Goal: Double emissions reductions from Energy Recovery products by end of 2025 vs. 2019 baseline

KPI	2019 (baseline)	2020	Future Target
Total emissions avoided across all products/year	10.4M metric tons*	12.5M metric tons	Avoid 20.8M metric tons by 2025
Total increase in emissions avoided year over year	Disclosure added in 2020	2.1M metric tons (20% increase)	N/A
Total dollars saved for customers/year	\$2.2B*	\$2.6B	N/A

Developing technologies that drive efficiencies and reduce emissions for our customers is at the heart of Energy Recovery's value proposition and sustainability strategy. We have set an ambitious goal to double this impact by 2025 through the growth of our core desalination business, as well as through the introduction of new pressure exchanger-based products in other industries. Additional detail on the sustainability benefits of our products is available in the "Focused on Innovation and Opportunity" section on page [26](#).

*Note, our 2019 total emissions avoided and dollars saved for customers have been updated based on our current methodology. Additional detail on the rationale and calculation is available in the "Content Index – SASB" section on page [79](#).



Environmental & Climate Change Risks

Goal: Report climate-related risk strategy and management aligned with the TCFD by end of 2024

Goal: Certification to ISO 14001 Environmental Management Standard by end of 2022

Energy Recovery is committed to making continued progress on our climate-change related disclosures, as well as enhancing our internal management of environmental risks. The TCFD's recommendations provide a structured approach to evaluating and communicating the potential impact climate change may have on our company. We believe alignment with this framework represents the best path for Energy Recovery to make progress in our climate change risk management strategy over the next few years. Furthermore, the TCFD aligns with and complements our current disclosure approach under SASB and GRI.

Additionally, we have committed to International Organization for Standardization (ISO) 14001 certification of our Environmental Management System as another critical component to successful management of our environmental and climate change risks.

In future reports, we will provide annual updates on our progress towards both the TCFD recommendations and ISO 14001 certification. Additional details on our current environmental and climate change risk efforts, including progress on ISO 14001 certification, are available in the "Building on a Solid Foundation for a Rapidly Changing Environment" section on page [41](#).



Products

Goal: Deliver products and solutions customers can trust

KPI	2019	2020 (baseline)	Future Target
Warranty expenses as a % of product revenue	Disclosure added in 2020	Less than 0.1%	Maintain below 1% of total product revenue
Monetary losses associated with legal proceedings due to product health and safety incidents	Disclosure added in 2020	Zero	Maintain at zero

Trust and reliability have long been synonymous with our PX Pressure Exchanger, the desalination industry's leading energy recovery device (ERD). We have a track record of minimal to zero financial impact from warranty events and legal proceedings related to product incidents. As we expand our product offerings, particularly to new industries, we recognize this introduces unknown risk and potential increase in these metrics. Nonetheless, we are committed to maintaining the highest quality standards and have set a target to maintain warranty costs below 1% of product revenue. This target ensures we stay within the top quartile of reliability and performance for our industry, according to benchmark data from the American Productivity & Quality Center.





Employees

Goal: Develop workforce to deliver sustainable, diversified growth

KPI	2019	2020 (baseline)	Future Target
Retention rate	93%	94%	Maintain retention rate above 90% each year
New hire turnover rate	Disclosure added in 2020	17%*	Reduce new hire turnover rate to less than 10%
Sustainability/ESG training	Disclosure added in 2020	N/A	100% of all new hires receive sustainability training within 3 months of hire date by 2022

The fulfillment of our ambitious vision for the future, both in terms of business growth and our ESG goals, will require the activation and cultivation of various assets. The most precious of these is our people. As we diversify and grow into a multi-industry company, a focus on the talent and culture that brought us this far is critical. We recognize that our human resource strategies and processes must evolve to support this growth.

Our retention-focused KPIs will hold us accountable for ensuring that our recruitment, training, and overall employee engagement strategies are meeting the needs and expectations of our employees. Additionally, to further integrate sustainability and ESG into our company, we are committed to providing orientation on these topics to all employees. Since the introduction of our ESG program in 2020, we have integrated ESG into our quarterly Town Halls and other employee forums. Going forward, we are committed to providing sustainability training to all new employees to ensure all those who join the organization receive the same baseline understanding of ESG's role at Energy Recovery.





Employees

Goal: Protect the lives and livelihoods of our employees by providing a safe and healthy work environment

KPI	2019	2020 (baseline)	Future Target
Certification to ISO 45001 standard	Disclosure added in 2020	Working towards certification in all facilities	All manufacturing locations certified by 2021
Safety training	Disclosure added in 2020	Implemented tailored, job-specific safety program	Achieve 95% of the planned annual training for each employee group*
Total Recordable Incident Rate (TRIR)	7.13	4.03	Aim towards zero
Near Miss Frequency Rate (NMFR)	Disclosure added in 2020	8.06	N/A
Fatality rate	Zero	Zero	Maintain at zero

It has always been our objective to provide our employees with a safe and healthy work environment. With the growth our company has experienced, and the future growth we anticipate, it is ever more important that we continue to focus on safety. To this end, we reviewed our safety program and identified key focal points on which we can build. Our focus is on developing and implementing consistent procedures and processes to identify issues, investigate them, and eliminate the possibility of recurrence, as well as preventing new ones from happening.

In 2020, we embarked on an effort to certify our safety program to the ISO 45001 occupational health and safety standard (ISO 45001), an internationally recognized safety management system. In 2021, we successfully completed a third-party audit of all manufacturing locations and have been recommended for certification.

We have also continued to develop our processes around employee safety training. After conducting a job function analysis, we segmented employees into the following groups: Production, Research & Development (includes production support roles and field operations), Office, and Facility (includes Shipping and Receiving). Each group will have a tailored training plan with the goal of completion of 95% of the annual plan.

We are pleased to have achieved a 43% reduction in our TRIR from 2019 to 2020. We also finalized implementation for tracking of near miss incidents. We are actively engaged in encouraging reporting and as participation in near miss reporting grows, we anticipate that our NMFR may increase for a period of time.





Best-in-Class ESG Reporting

To guide the evaluation of our performance within widely accepted reporting frameworks, we prepared this report in accordance with SASB's standards for our specific industry, as well as select disclosures from the GRI framework. Through this structure, we aim to clearly communicate our ESG risks and opportunities to our stakeholders in a way that enhances transparency and informs long-term decision-making. We have developed data tracking and control processes to ensure the integrity of information included in this report, which has been subject to internal validation.

Energy Recovery is classified as an Industrial Machinery & Goods business within SASB's Resource Transformation group, and this report includes the relevant metrics and disclosures SASB defines as material to companies in this industry. We also include additional disclosures from SASB's Electronic & Electrical Equipment Sustainability Accounting Standard (which also falls under SASB's Resource Transformation sector) that are relevant to our business. Detailed disclosures can be found in the SASB index on page **79** of this report.

Additionally, this report includes select disclosures from the GRI framework. Detailed disclosures can be found in the GRI index on page **81** of this report.

Disclosures under these frameworks are related to Energy Recovery's sustainability performance in 2020 and include all company operations worldwide, unless otherwise noted. Looking ahead, we will focus on refining our data tracking and scenario modeling to report on the TCFD's recommendations, and to a lesser extent, applicable disclosure areas under SASB and GRI.

Alignment with the United Nations Sustainable Development Goals



Where applicable throughout this report, we have added an icon, symbolizing either SDG alignment or reference to our ESG goals.

Adopted by all United Nations member states in 2015 and reflecting decades of progress by individual countries and the multilateral institution itself, the United Nations Sustainable Development Goals (SDGs) are an ambitious, holistic roadmap for tackling the world's most pressing issues. The SDGs are a globally valued framework directing governments, businesses, and civil society to work together in addressing a multitude of global challenges, including poverty, inequality, climate change, environmental degradation, and peace and justice.

Our values go beyond profit and extend to the impact our business has on the world. Therefore, we view the SDGs as an important accountability and measurement mechanism.

Through the development and continued advancement of our core pressure exchanger technology, Energy Recovery has helped make large-scale, community-supporting desalination possible around the world. Our technologies are at the heart of complex industrial fluid-flow systems, driving efficiencies and emissions reductions in industries that keep our world moving. Beyond that, we are dedicated to continually evolving our core technology, and developing new applications of it, to bring similar benefits to other industries.

We are specifically committed to advancing certain SDGs that align with our strengths. As disclosed last year in our inaugural ESG report, we have identified three SDGs with which we believe our products, vision, and operations best align:

- **SDG 6** – Clean Water and Sanitation
- **SDG 7** – Affordable and Clean Energy
- **SDG 9** – Industry, Innovation and Infrastructure

Because we view the SDGs as a powerful and useful framework, we also sought to expand our alignment with these goals in this report. Based on our own progress and strategic review, we believe we are uniquely positioned to support the United Nations' efforts in ensuring sustainable consumption and production patterns. These efforts are best represented by:

- **SDG 12** – Responsible Consumption and Production

Alignment with these four SDGs will guide us in maximizing our role in the larger global effort toward a more sustainable future.

6 CLEAN WATER AND SANITATION



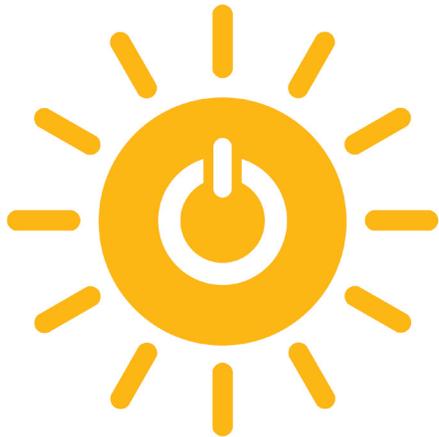
Our commitment to SDG 6 focuses on three targets where Energy Recovery is positioned to create a sustainable and scalable impact:

SDG 6 Targets

6.1	“By 2030, achieve universal and equitable access to safe and affordable drinking water for all”
6.4	“By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity”
6.a	“By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programs, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies”

Our products directly support positive change in the water industry. Our energy recovery devices, including our flagship PX Pressure Exchanger, increase efficiencies for water desalination facilities and directly reduce costs and emissions. Our Ultra PX™ device for industrial wastewater treatment applications supports SDG 6, significantly reducing the energy needs, costs, and emissions associated with treating industrial wastewater discharge through Ultra High-Pressure Reverse Osmosis (UHPRO) applications.

7 AFFORDABLE AND CLEAN ENERGY



Our commitment to SDG 7 focuses on two targets where Energy Recovery is positioned to create a sustainable and scalable impact:

SDG 7 Targets

7.1	“By 2030, ensure universal access to affordable, reliable and modern energy services”
7.3	“By 2030, double the global rate of improvement in energy efficiency”

Our products reduce emissions and waste related to the production of vital resources through improved productivity, increased efficiency, and reduced energy consumption. Two of our emerging products directly support SDG 7 by making energy generation more sustainable. Our IsoBoost™ system improves the reliability and lowers the carbon footprint of natural gas processing plants, while the in-development VorTeq™ reduces emissions and increases operational safety in hydraulic fracturing.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



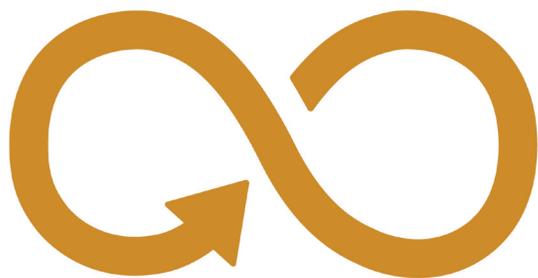
Our commitment to SDG 9 focuses on two targets where Energy Recovery is positioned to create a sustainable and scalable impact:

SDG 9 Targets

9.2	“Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries”
9.4	“By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities”

Our products and solutions help build more resilient infrastructure and advance sustainable industrialization by enabling energy and cost-efficient production processes. Our PX Pressure Exchanger, the original product application of our pressure exchanger technology, has helped drive a technological shift in desalination. As aging thermal desalination plants are replaced with more sustainable SWRO desalination, we are proud to be a driving factor in this transition. In addition, we diligently work to expand the capabilities of our pressure exchanger technology to drive sustainable transformation in other industries like refrigeration and energy production.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Our commitment to SDG 12 focuses on seven targets where Energy Recovery is positioned to create a sustainable and scalable impact:

SDG 12 Targets

12.2	“By 2030, achieve the sustainable management and efficient use of natural resources”
12.4	“By 2020*, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment”
12.5	“By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse”
12.6	“Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle”
12.7	“Promote public procurement practices that are sustainable, in accordance with national policies and priorities”
12.8	“By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature”
12.a	“Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production”

Our products, solutions, and operations are aligned in their focus on the efficient use of natural resources, reduction of waste generation, and promotion of public procurement practices that are sustainable. Our emerging product lines in industries such as refrigeration are especially focused on accelerating the sustainability of our customers' operations, many of whom are large multinational organizations. Furthermore, as we continue to refine and push our own ESG journey, we are committed to adopting more sustainable consumption and production practices ourselves.

* UN target date



*Innovation
& Opportunity*



Developing Products that Accelerate Customers' Environmental Sustainability

Focused on Innovation and Opportunity

Energy Recovery's genesis is a familiar one for many industrial technology companies. What began with an engineer experimenting in a small workshop has grown into a global, publicly traded company with multiple products and business opportunities. Our founding spirit of curiosity and desire to challenge the status quo is ever-present and informs our approach to innovation. Today, we are leveraging our pressure exchanger technology platform to develop breakthrough product applications and diversify into new industries. Our methodical approach to product development ensures that this work is guided by both well-defined and time-bound commercial and financial objectives. We continue to push the limits of what our core pressure exchanger technology can do, which we believe will unlock new commercial opportunities in the future.



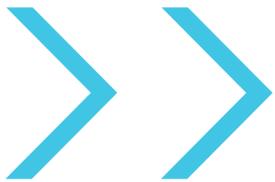
In Their Own Words...

"The pressure exchanger technology is still nascent. We haven't scratched the surface of what it can do. We have been tirelessly expanding its working aperture in many areas of engineering, namely pressure, fluid phases, species, and viscosity. As one example – we've been focused on reducing mixing to near zero [between the high-pressure and low-pressure fluids or gas], but at the other end of the spectrum, mixing could actually be an advantage for some applications. There could be medical and chemical applications, to name a few."

Farshad Ghasripor
Chief Technology Officer



Leading the Charge Against Climate Change with Innovative Products and Services



While climate change certainly poses risks, every risk presents an opportunity. As the world coalesces around addressing climate change and its impacts, we are proud to tackle this extraordinary challenge.

Energy Recovery stands positioned to be a leader in a low-carbon economy with our core desalination business, as well as other industry verticals. As the world transitions to meet new environmental standards, we will support our customers by making industrial processes more sustainable and economical.

Desalination

The world's need for clean water is intensifying, driven by population growth, industrialization, rapid urbanization, and climate change. According to United Nations estimates, global demand for water will surge 30% by 2050. Even today, nearly two billion people worldwide experience extreme water stress year-round.



These trends make desalinating water increasingly vital to quench global thirst. As the industry leader in ERDs, we are actively deploying highly efficient, scalable solutions for recovering otherwise wasted energy in the reverse osmosis (RO) desalination process. This includes our flagship PX Pressure Exchanger ERD, our turbocharger ERD, and ancillary equipment such as high-pressure pumps designed to further optimize the performance of a desalination facility.

In 2020, our ERDs saved water desalination customers approximately \$2.6 billion in energy costs. That same year these devices also helped our customers avoid 26 terawatt hours of energy usage, representing a 4% reduction in the global energy consumption for potable water utilities. Our ERDs prevented approximately 12.5 million metric tons of carbon emissions – equivalent to removing more than 2.7 million passenger vehicles from the road annually. SWRO desalination plants using our ERDs produce over 24 million cubic meters of water a day – enough to provide for more than 10% of the U.S. population's daily water needs. As water scarcity grows in communities across the globe, we are proud of our impact in enabling more affordable, sustainable access to this vital resource.*



*Based on Energy Recovery estimates

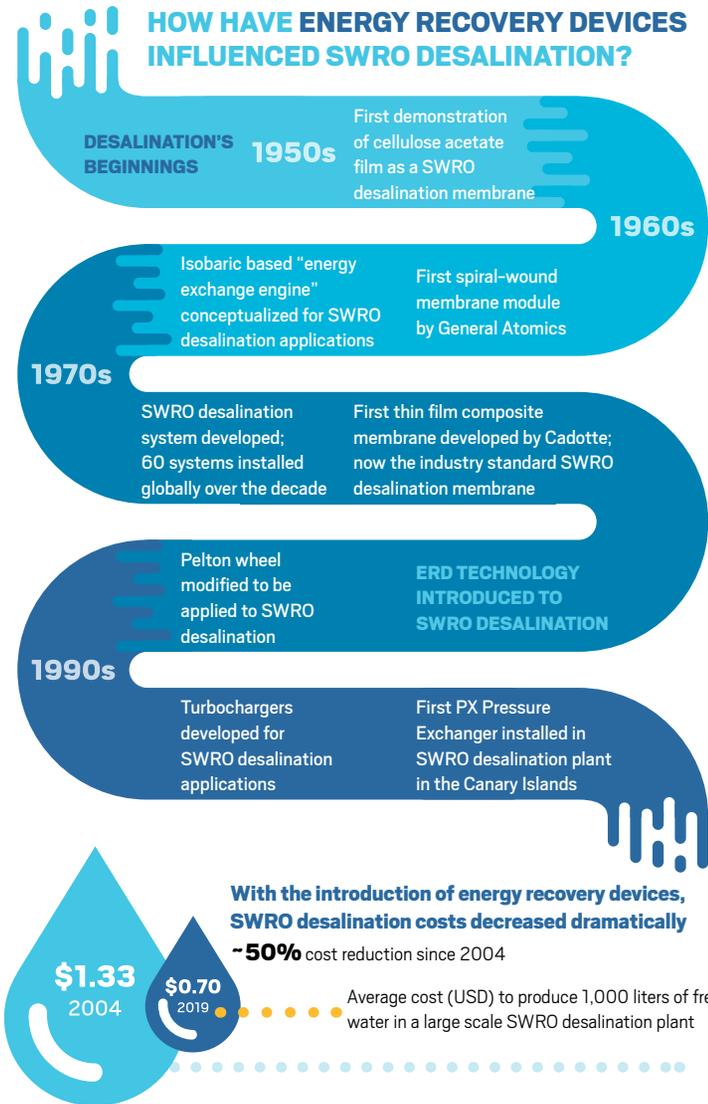


In Their Own Words...

"From a mechanical engineer's perspective, 15-25% efficiency is what we typically see. So, the 98% efficiency of the pressure exchanger technology really sparked my interest. The design has no contact bearings, which is amazing for a rotating machine as they're typically a source of failure. There are no pistons, no seals, no moving valves. There's no engine, which can be another problematic factor with gas going in and out. The pressure exchanger just has its own rotation. It's almost a perpetual machine – for a mechanical engineer, it's a dream machine."



Kuo-Chiang (K-C) Chen
Vice President of Engineering
and New Product Launch



The benefits that our technology delivers in desalination translate to our emerging product lines, which leverage our core pressure exchanger technology.

Emerging Products

Ultra PX (Industrial Wastewater)

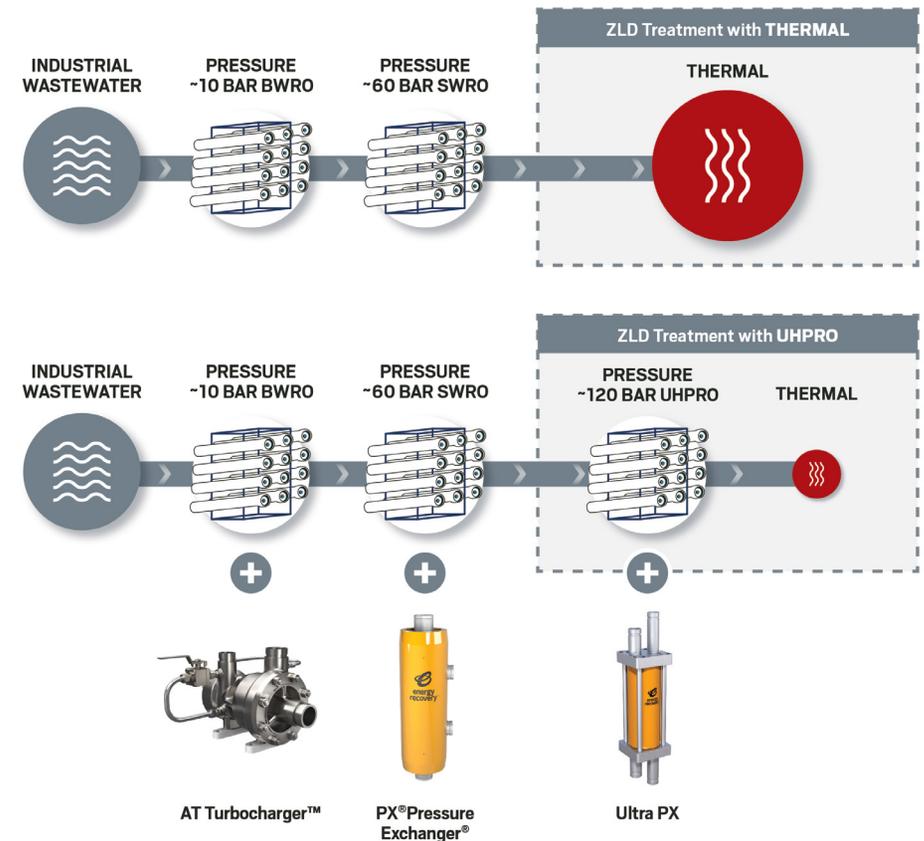
As governments across the globe increase their focus on water conservation and maintaining clean water sources, they are establishing more stringent requirements for industrial wastewater treatment. Many companies are also under pressure from investors and other stakeholders to adopt more sustainable water reuse practices and reduce reliance on existing water sources.

This regulatory push is currently being led by China and India, which both promote zero liquid discharge (ZLD) and minimal liquid discharge (MLD) requirements for industrial wastewater treatment. ZLD and MLD treatments seek to eliminate or minimize wastewater discharge by purifying and recycling heavily concentrated industrial waste fluids.

Traditional ZLD and MLD systems rely heavily on expensive and energy-intensive thermal desalination technologies. An alternate treatment method, UHPRO, was available but remained prohibitively expensive.

Energy Recovery's Ultra PX is designed to dramatically reduce the energy needs, costs, and environmental impacts associated with treating industrial wastewater in UHPRO applications. The Ultra PX reduces energy consumption by up to 60% in UHPRO systems, the same energy and cost-saving benefits that our PX delivers in lower-pressure reverse osmosis applications. ZLD and MLD facilities will still need a small amount of thermal desalination to achieve ZLD and MLD objectives even with UHPRO. However, leveraging the Ultra PX with UHPRO will significantly lower thermal demand, saving energy and emissions. We also have the opportunity to integrate additional Energy Recovery products into other parts of the system.

In 2020, we signed our first Ultra PX contract to support operations of a chemical manufacturer in central India. Since then, additional contracts have been awarded in China. Although UHPRO adoption in industrial wastewater treatment is in its early stages, we believe Energy Recovery's Ultra PX can help accelerate adoption of UHPRO in the growing ZLD and MLD market. Sectors such as automotive and electric vehicles, chemicals, pulp and paper, textiles, semiconductors, and others could potentially all benefit from UHPRO as a means to remove toxins from their industrial wastewater. With the Ultra PX, our core pressure exchanger technology is tackling global water issues in new ways.



Applying UHPRO to ZLD treatment reduces thermal requirements at the end of the process
BWRO stands for brackish water reverse osmosis

PX G1300

(Commercial
and Industrial
Refrigeration)



The global refrigeration industry is a leading user and emitter of hydrofluorocarbons (HFCs), which are a group of powerful man-made greenhouse gases that impact global warming thousands of times more than carbon dioxide.

HFCs are the fastest growing source of greenhouse gas emissions, growing at a rate of approximately 10-15%. More than 120 countries have signed on to the Kigali Amendment (an amendment to the Montreal Protocol), which establishes a timeline for the mandated phasedown of HFC use in developed nations (85% reduction by 2036) and developing nations (85% reduction by 2047). In May 2021, the United States Environmental Protection Agency announced its intention to phase down the production and import of HFC emissions by 85% by 2036, in accordance with the Kigali Amendment.

For the refrigeration industry, phasing out HFCs means moving to natural refrigerants such as carbon dioxide (CO₂), which is – perhaps counterintuitively – one of the most sustainable and safe natural refrigerants. But the high cost of CO₂ refrigeration systems, especially in warmer climates, has traditionally made it prohibitive for retailers to make the switch.

Energy Recovery's PX G1300™ (PX G) energy recovery device is designed to make the transition to CO₂ refrigeration financially attractive.

The PX G compresses and expands gas, and marks the first time we have used a pressure exchanger to handle multiple phases of a fluid. It can reduce the energy consumption and operating costs of CO₂ refrigeration systems in a broad range of operating conditions. In fact, the warmer the climate, the better the PX G performs. Compared to a CO₂ system without an ERD, our testing shows a classic four-component refrigeration system with the PX G can reduce energy consumption by an estimated 20-30% at an ambient temperature of 70°F (21°C) and an estimated 40-60% at an ambient temperature of 90°F (32°C).

What's more, the PX G is expected to outperform alternate energy recovery technologies for CO₂ refrigeration, whose performance degrades compared to the PX G as temperatures rise. More economical and green refrigeration will not only support the planet, but can also provide greater access to vital resources such as food and medicines in areas where refrigeration remains a challenge.

MEET THE TEAM

Revolutionizing Refrigeration

From Patent to Test Loop to Your Local Supermarket



It began as a revolutionary idea: what if you could use the pressure exchanger technology for gas compression? Could it make CO₂ refrigeration the solution of the future? The team took the project on with the scientific, safety, and innovative rigor instilled in Energy Recovery's DNA, and the results have demonstrated the sheer power and promise of the pressure exchanger technology.



MEET THE TEAM

Revolutionizing Refrigeration

"The value proposition of PX G1300 for supermarkets is very clear: they need a reliable, economic, and sustainable way to keep their items fresh. The pressure exchanger is a highly engineered yet simple device; it only has four components compared to most turbomachinery, which may have hundreds of components. This makes the device inherently reliable with no need for maintenance.

Supermarkets can rest assured that their produce will stay fresh and their ice cream won't melt, all while reaping the economic and environmental benefits of the pressure exchanger technology. This is the most exciting project of my 25-year career. It's like being a kid in the toy store getting to work with this technology."

Kuo-Chiang (K-C) Chen

*Vice President of Engineering
and New Product Launch
2 Years at Energy Recovery*

"Infrared 'windows' in the earth's atmosphere allow it to reject heat into space and regulate its temperature. Carbon-fluorine atomic bonds in HFCs affect transparency of these windows and contribute to global warming. I wondered if the pressure exchanger technology could be used to reduce energy consumption of CO₂ refrigeration systems, which have a lower Global Warming Potential. Through multi-physics models, we found that high-speed acoustic waves are produced when supercritical CO₂ comes in direct contact with low-pressure gaseous CO₂ inside the pressure exchanger, and are very efficient in compressing gas. Models also predicted that ultra-low temperature liquid would be produced when high-pressure supercritical CO₂ molecules expand inside the pressure exchanger. We built a state-of-the-art test loop to validate these predictions and found them to be correct. This was a fundamental breakthrough, as the pressure exchanger compressed CO₂ without requiring external mechanical energy and produced a refrigeration effect, all in one device. This discovery paves a path for low global warming refrigeration, power generation, and energy storage technologies."

Azam Thatte

*Senior Principal Technologist
5 Years at Energy Recovery*



MEET THE TEAM

Revolutionizing Refrigeration

"We used a computational fluid dynamics 3D simulation to forecast the conditions of compressing CO₂ for refrigeration to make sure the physics supported our initial hypothesis. The next step was to test the PX in a test loop in actual refrigeration conditions. When we saw the PX working on our refrigeration test loop to both expand and then compress the CO₂ – that was an incredible moment for the team and an undeniable breakthrough for Energy Recovery and for the refrigeration industry."

Behzad Zamanian Yazdi

*Engineering Team Leader -
Principal Technologist
4 Years at Energy Recovery*



"Safety, much like innovation, is part of the DNA of Energy Recovery. Our engineering team did an outstanding job of implementing several integrated safety layers as part of the refrigeration test loop design for the CO₂ project. We methodically identified hazards, evaluated the impact of each risk, and applied solutions for risk mitigation. We used a detailed, systematic approach in evaluating any deviation to the design intent. The safety of our employees and neighbors is always top of mind, and is integral to our design and testing process."

Max Shirazi

*Director of Quality, Health,
Safety and Environment
7 Years at Energy Recovery*



MEET THE TEAM

Revolutionizing Refrigeration

"Commercial and industrial refrigeration companies may think twice about installing an HFC system today because regulations are not supportive of it in the long term. Supermarkets have very narrow margins – in the single digits. So, whatever we can do to help companies increase those margins, save energy, and align with new regulations will help our customers. We believe the PX G1300 will provide significant energy savings, and will be especially effective in hotter climates where CO₂ was previously not a sustainable option. Right now, CO₂ systems are more typical in Europe, but as we demonstrate the efficiency of the PX G and CO₂ in hotter climates, we expect rapid adoption."

Jimmy McLean

*Director of System Design and Reliability
5 Years at Energy Recovery*

"The pressure exchanger is an amazing energy recovery device, second to none in the world. Its versatility has really surprised us and has opened up many new possibilities. Before this project, we used the pressure exchanger primarily for desalination – a market we understood and had spent years growing and cultivating. Expanding the pressure exchanger operating threshold to include multiphase flow unlocks new potential, making this a very exciting time to explore the technology for new markets and opportunities. Every day we are pushing the limits of what is possible through testing. Today the breakthrough is refrigeration, but I have no doubt we will explore other applications in the very near future."

Michael Gustafson

*Senior R&D Engineer and Testing Lead
4 Years at Energy Recovery*



VorTeq (Well Completion)



The VorTeq utilizes our pressure exchanger technology as a pump in hydraulic fracturing and protects high-pressure pumps from erosion and damage.

This reduces operational downtime caused by equipment failure, ultimately conserving material resources, emissions, time, and costs, as well as improving worker safety.

In this unique application, frac fluid is pressurized in the VorTeq itself. This process ensures that high-pressure pumps handle water, not abrasive proppants, which protects pumps from erosion and reduces operational downtime. By minimizing pump redundancy and increasing equipment lifespan, the VorTeq can lower costs and reduce the resources required for oil and gas well completion operations. This indirectly lowers emissions associated with manufacturing and transporting spare parts. Increasing equipment lifespan can also promote safety on a job site by reducing the exposure of maintenance personnel, especially during ongoing operations when safety concerns are elevated. All of these advantages contribute to the greater goal of providing more affordable and efficient energy for the world's population.

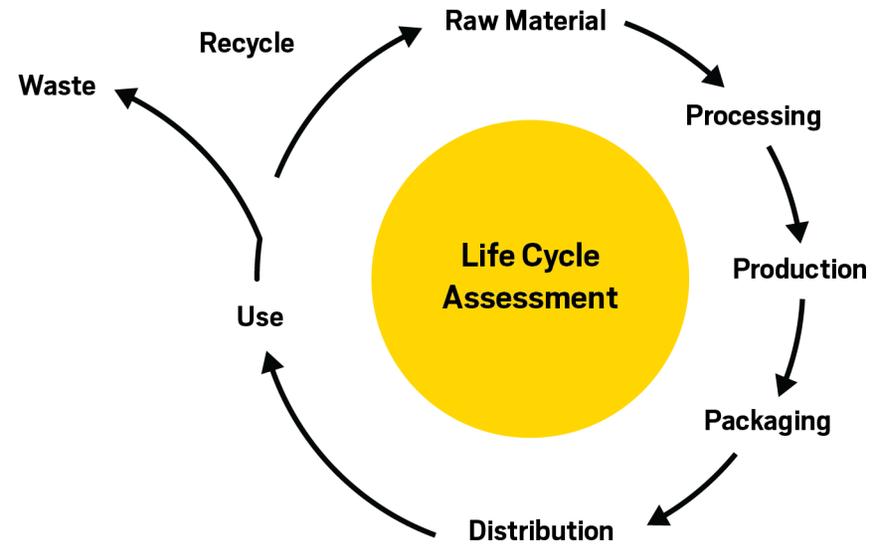
For the latest information on our emerging products, please visit the Energy Recovery website www.energyrecovery.com

Our Approach to Innovation

Much of our R&D focuses on expanding what our core pressure exchanger technology can achieve. Starting from the first iteration of the PX for SWRO, its functionality has evolved to handle extreme pressures, abrasive fluids and sand, to now a proven ability to operate effectively with gas.

With these current technological capabilities, our product development strategy is to identify liquid, solid, and gas (or multi-phase) applications where pressure energy is currently wasted. Similarly, industrial systems where equipment is destroyed or adversely affected may also be a fit for our technology. We maintain a product development roadmap, which determines R&D resource allocation across all business units. Cross-functional teams facilitate a disciplined New Product Development and Introduction process to ensure we remain within scope and budget and meet commercial deadlines.

We embed sustainability throughout our new product development. Early in the development process, we evaluate the potential environmental impact of our products for its complete lifespan. The Life Cycle Assessment (LCA) addresses the entire life cycle of a product from raw material extraction and acquisition through end-of-life treatment and final disposal. Additionally, we consider broader implications of a new product's impact on ESG issues as part of business case development.



Our robust R&D program, at times, leads to the development of new proprietary technology or other intellectual property. To protect these assets, we seek patent protection for new technologies, inventions, and improvements that are likely to be incorporated into our solutions. We continue to expand our patent portfolio, particularly around pressure exchanger technology applications. A cross-functional patent committee oversees this process. Engineers submit disclosures describing the problem a new invention intends to solve, how that problem is currently addressed, and other details on the technical innovation. Based on these disclosures, the committee conducts a thorough review, inclusive of legal matters, and determines if a filing is necessary. Prior disclosures may be reviewed periodically in case the landscape has changed and a new filing is warranted. More information on our approach to managing intellectual property is available in our **Form 10-K**.



In Their Own Words...

“When we approach R&D, we can’t just add components to the pressure exchanger. That would ruin its elegant and simple design. So, we have to go down and explore the fundamental physics. It encourages people to be creative and find solutions. We have no book to follow. This also contributes to employee retention – engineers who enjoy this will stay. As we push the operating capacity of our pressure exchanger technology, this evolution leads to more curiosity and innovation from our team, in addition to more commercial opportunities.”



Kuo-Chiang (K-C) Chen
Vice President of Engineering
and New Product Launch

“The essence of the PX is simplicity. It has four main components. There is no motor to power it other than the fluid that passes through it. It acts as a positive displacement pump without the actual positive displacement components; the fluid itself is the piston. It’s basically a reciprocating machine. Its lack of mechanical parts is the reason it’s so efficient. Mechanical parts cause energy loss in a system. If you take into account the compressibility of water at roughly 0.3% at 1000psi, the PX as a fluid-flow device in SWRO commands an efficiency of close to 98%. We’re at the cutting edge of challenging laws of physics!”

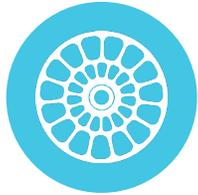
Farshad Ghasripoor
Chief Technology Officer



In addition to intellectual property, we steward other resources to support our ongoing R&D program. We maintain advanced analytical and testing capabilities to evaluate our solutions at all company sites. Our transcritical CO₂ refrigeration test loop is state of the art with the PX G acting as an interface between high-pressure supercritical CO₂ and low pressure subcritical CO₂ vapor.

Energy Recovery's investment in talent is the cornerstone to our innovation. Our world-class engineers specialize in a range of technical fields critical to support our current product lines and advance our incubation initiatives.

Beyond their technical backgrounds, we seek engineers who are passionate about research and accomplished at delivering results of practical value. This rare breed of engineers craves challenge and is capable of transforming pure science into technology with real-world industrial applications.



In-house Critical Engineering and Scientific Disciplines

- *Fluid Mechanics (Multiphase Flow)*
- *Solid Mechanics*
- *Aerodynamics*
- *Tribology*
- *Acoustics and Vibrations*
- *Material Science*
- *Bearings and Rotor Dynamics*
- *Structural Dynamics*
- *Systems and Controls*
- *Thermodynamics*
- *Heat Transfer*



In-house Engineering Tools

- *Computational Fluid Dynamics (CFD)*
- *Finite Element Analysis (FEA)*
- *Numerical Analysis*
- *Metrology and Machine Design*
- *Multiphysics Fluid Structure Interaction*



Products



Continuous Improvement

For Energy Recovery, innovation does not simply mean leveraging our engineering expertise to push the boundaries of our technology. We are committed to continuous improvement of our existing products and processes to deliver products and solutions that our customers can trust. Even with our strong track record of reliability and service, we are holding ourselves accountable with specific product targets, including an industry-leading warranty event expense ratio and zero monetary losses related to product incident legal proceedings. We vigilantly maintain the standards of our existing product lines, improve them based on customer feedback, and respond to changing environmental factors. As we push the envelope of the pressure exchanger technology to expand to new industries, our standards of quality, safety, and reliability must not waiver.

Over the years, we have continued to improve upon our pressure exchanger technology and refine our SWRO product offering. Desalination plants around the world rely on the PX to achieve optimal operations. Designed for a minimum 25-year life cycle, the PX outlasts most other components of the system in which it is incorporated. The PX cartridges have only one moving part and are made with high-purity aluminum oxide ceramic – a material that fits this purpose perfectly. They are corrosion-proof and three times more abrasion-resistant than steel.

Our flagship PX Q series is designed to enhance the safety of SWRO plants through reduced operational sound levels. The “Q” in the name stands for quiet. At 79 decibels or fewer (comparable to a home vacuum cleaner), the PX is quieter than most, if not all, of the surrounding pumps in the system.

In addition, PX Q devices are certified to the National Science Foundation 61 standard by a third-party certification body, which indicates they are suitable for use with potable drinking water.

We design and manufacture ceramic components in-house at our California production facilities. This vertically integrated structure allows us to control the precision and quality of our core components down to the micrometer level. There are several quality checkpoints at various stages of manufacturing ceramic components to ensure each PX performs with maximum efficiency, durability, and reliability.



To meet the needs of our customers and stakeholders in the most efficient manner possible, our Quality Management System in our California facilities is certified to the ISO 9001 quality standard. Our production facilities also operate under the principles of Lean Manufacturing to eliminate waste.

EMPLOYEE SPOTLIGHT



Cheng Saephanh

Assembly Technician

14 Years working at Energy Recovery

San Leandro, CA

For over a decade, Cheng has worked at Energy Recovery, inspecting each component of the PX to make sure all parts are up to standard prior to assembly. He is known for discipline and high standards, and regularly takes the initiative to improve processes on the manufacturing floor. He cites good communication with coworkers and attention to detail as to how Energy Recovery continuously improves its own systems.

How do you keep the manufacturing floor safe?

We follow company safety policies and protocol. It's a culture where we really want to help each other out. With COVID-19, this was amplified with additional PPE, social distancing, weekly COVID-19 testing, and daily temperature checks on the manufacturing floor.

What is your favorite part of working at Energy Recovery?

The PX is unique because it helps customers and the world by saving energy and the environment. I take pride in building the PX and enjoy every day knowing we are saving the world, one PX at a time.



Environmental & Climate Change Risks



Building on a Solid Foundation for a Rapidly Changing Environment

Path toward ISO 14001

At the outset of our ESG journey last year, we quickly identified that creating products to promote the environmental sustainability of our customers' operations would mean little if we did not also turn the lens on ourselves. Energy Recovery's culture of integrity and continuous improvement inherently has promoted efficiency in our operations and empowered employees to identify solutions. However, we recognized we must build upon this foundation further, in order to be a leader in sustainability and create resilience within our own company. The growing challenges associated with climate change require a strategic, integrated approach.

To this end, in 2021 we published our corporate Environmental Policy Statement, formally documenting our approach to reducing the environmental impact of our operations.

The statement affirms our longstanding commitment to environmental leadership and documents one of our key ESG goals, the development of a comprehensive Environmental Management System (EMS) and certification of our EMS to the internationally recognized ISO 14001 environmental standard (ISO 14001).

Our global EMS will provide the framework needed to sustain the commitments outlined in the Environmental Policy Statement and allow us to identify, manage, monitor, and mitigate our environmental considerations in a holistic manner. This process requires us to consider all environmental issues relevant to our operations, such as climate change mitigation and adaptation, water and sewage, waste management, and energy use. A major component of ISO 14001 is the Life Cycle Assessment, whereby the environmental impact of a commercial product, process, or service is evaluated throughout various stages starting from the purchasing of raw materials to end of product life.

By aligning our EMS to ISO 14001, our approach to environmental matters will easily integrate with our existing ISO-certified quality management system and soon-to-be ISO-certified occupational health and safety management system (discussed further in the "Safety" section on page 47). Furthermore, the ISO standard provides a flexible framework, so that our EMS can adapt as we execute on our strategy of disciplined, diversified growth. Based on our completed gap analysis, we expect to achieve ISO 14001 certification in 2022.



Managing Environmental Risks

Climate change and the global imperative to decarbonize our economy will pose various risks and opportunities for companies. For Energy Recovery, we see great opportunity in this transition to leverage the full potential of our energy saving products. We also recognize that proactive identification and management of environmental risks is vital for the sustained success of our business.

Risk planning is an integral part of our environmental management program, which aims to foster a proactive rather than reactive approach. We use a Plan, Do, Check, and Act framework to guide these efforts. The framework's emphasis on regular engagement with top management helps to ensure that environmental risks and opportunities are systemically assessed and considered by leadership. Additionally, ISO 14001 requires us to have emergency preparedness and response plans in place.

The development of our EMS, along with our goal to align to the TCFD's recommendations by 2024, will provide a robust framework for continued assessment and management of Energy Recovery's environmental and climate change-related risks moving forward. Below is a summary of physical and regulatory risks that may originate from environmental impacts and our corresponding mitigation tactics to date. Additional details on our supply chain and materials risks and mitigation strategies are available in the "Our Suppliers" section on page [63](#).

Physical Risks

We recognize that our operations and those of our suppliers may be vulnerable to the effects of climate change, especially extreme weather events such as fire, earthquake, and flood. Natural disasters fall under the purview of our corporate risk management process, which is overseen by the Board and its committees.

For more detail on this process, please see the "Systemic Risk Oversight" section on page [72](#).

Physical damage to our San Leandro facility that houses our headquarters, manufacturing, and R&D operations has the potential to halt or significantly interrupt our activities. Pacific Gas and Electric, the utility company that services much of Northern California, occasionally implements rolling blackouts due to wildfire risk in the surrounding area. To mitigate this risk at our San Leandro facility, we have installed a back-up generator to protect our IT systems for continued communication and to ensure minimal impact on production. In addition, our San Leandro facility is also located near major earthquake faults and has experienced earthquakes in the past. The building has been retrofitted with additional earthquake proofing construction elements and can withstand moderate seismic events with minimal to no damage. Furthermore, drought and rising sea waters may also pose physical risks to our San Leandro facility.

Our efforts to diversify our operational risk exposure was the basis of our decision to expand capacity by opening a new facility in Tracy, California. Opened in 2020, this 54,000 square foot facility provides additional manufacturing capacity to meet increased demand, and also serves as a contingency for unforeseen events affecting our primary San Leandro manufacturing operations. We selected Tracy due to its location in a low-risk seismic zone, independent power grid, and access to key transportation access points. Furthermore, the city of Tracy is located 47 miles east of our San Leandro headquarters. Therefore, it essentially acts as an extension of our existing manufacturing, greatly simplifying operations and controlling costs. The Tracy facility also includes a back-up generator to support critical processes in the event of a power outage.

We expanded our operations outside of California to the Houston Metro area in 2019. Our four-acre site in Katy, Texas, includes a 20,000 square foot manufacturing and warehouse space, a 5,000 square foot office space, and a two-acre yard for field testing and product development. This facility is at risk of storms and hurricanes, which at times results in power outages and flooding. In this location, we have a battery back-up system to protect our most sensitive equipment, such as IT and quality control. This system proved critical during an unusually severe winter storm in Texas in February 2021. When the local electrical supply went down, our IT infrastructure continued operations and communication, allowing our team to develop a plan for back-up power.

In addition to developing internal contingency plans, we have external redundancy in place, as well. We have leveraged our relationships with the suppliers of our smaller-sized pressure exchangers to create backup for key in-house production functions. We plan to deploy creative tactics such as these, along with disciplined preparation, as we continue to enhance our contingency plans moving forward.

Regulatory Risk

We are committed to complying with all applicable environmental legislation and regulations. Our efforts to develop and certify a comprehensive EMS to ISO 14001 will further strengthen our compliance with various local, state, and federal environmental regulations in areas including air pollution and toxic substance control.

While we have not currently identified significant environmental regulatory or compliance risk, we recognize that as our business lines and operations grow, this could lead to potential exposure. Specifically, as we enter new industries or open facilities in new locations, these new ventures pose inherent risk if proper due diligence is not performed. Fulfillment of compliance obligations is a cornerstone of ISO 14001.

Therefore, our EMS will include mechanisms for ensuring the proper regulatory reviews are in place. This systematic review process will help us keep up with an evolving regulatory environment. Finally, in some cases, the ISO 14001 certification itself may help demonstrate compliance with current and future statutory and regulatory requirements.

In accordance with our Systemic Risk Oversight processes, future growth plans are evaluated not only against regulatory risks, but also against broader climate change risks. Just as our facility expansions to Tracy and Katy in recent years targeted these locations with physical risk mitigation in mind, we will continue to include an assessment of evolving environmental risks in our decision-making. These risk factors include rising sea levels, changes in storm and precipitation patterns, and increased wildfires and heat waves.



Solar panels installed in Katy, Texas, location in 2020

Managing Our Footprint

At Energy Recovery, we are committed to reducing the environmental impact of our operations. Despite our global reach, our footprint is relatively constrained given our headcount of approximately 200 employees. However, we recognize that as we pursue our strategy of diversified and disciplined growth, our footprint, and therefore our impact on the environment, may increase. Some of the ways we currently seek to minimize our impact are by reducing consumption of resources through waste management strategies, optimizing the use of renewable energy, and monitoring key environmental indicators. Our efforts to measure and manage our impact will continue to evolve as our business grows.

Water Management

As a leader in water desalination and a newer entrant to the industrial wastewater treatment market, we recognize water as a valuable and often scarce resource. In order to better understand our own impact, we have initiated the installation of separate water meters in our production facilities. This will allow us to more precisely measure our usage for different processes and have a targeted approach to future improvement efforts.

In parallel with our efforts to measure production water usage, we have taken steps to make our R&D test loops – a major driver of our water usage – more efficient. Closed test loop systems in the majority of our R&D operations allow us to recycle water. We were able to reduce the amount of water utilized for oil and gas testing in Katy by 60% from 2019 to 2020 with various mitigation techniques. Our team deployed several tactics to reduce water consumption including extensive operator training and the introduction of new processes and tools that allowed for greater recycling and reuse of water in testing. Although the VorTeq has progressed to live well testing and is now testing less frequently on-site in our Katy facility, these efficiency improvements are representative of the ingenuity consistently applied by our personnel to reduce our impact.



Waste Management

We are dedicated to reducing consumption of resources at our facilities through waste management strategies that promote reuse, recovery, and recycling, where appropriate. For example, circular design is built into the manufacturing process of our signature PX Pressure Exchanger for desalination. Raw alumina powder is pressed and fired in a kiln to create the precise, high-purity ceramic components that are inserted into the vessel of the PX. During the machining phase, when the solid components are shaped, excess alumina powder is collected, processed, and then reused. This circularity translates to economic efficiency as well, reducing the total amount of alumina powder that we must purchase and the cost of disposal for scrap powder.

- ***In 2020, 39% of alumina used in PX production was from reclaimed powder***
- ***100% of waste metal across all facilities is recycled***
- ***Up to 60% of raw tungsten used in the VorTeq cartridges is from recycled material***

We also adhere to all local and federal regulations in regards to the disposal of toxic materials. For example, we maintain Hazardous Material Business Plans for our California production facilities in accordance with local requirements.

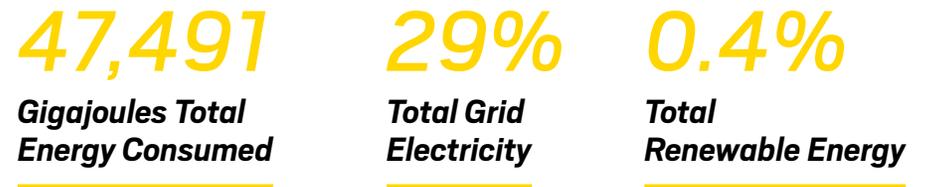
Energy and Emissions Management

We seek to minimize our energy consumption and emissions impact through various clean energy and energy efficiency initiatives. For example, an employee at our Katy facility requested covered parking to protect cars from the intense Texas sun. In the spirit of ingenuity and teamwork, the team decided on a win-win solution: solar panels that would provide both a carport for employees and at the same time serve as a renewable energy source for the facility.

In June 2020, we installed a solar array at our Katy facility that provided 16% of our 2020 electric consumption since its commissioning.

In addition, we outfitted our Katy facility and a significant portion of our San Leandro headquarters with energy saving LED lighting.

2020 Energy Usage (all facilities)



Manufacturing of our products represents the largest driver of our energy usage. Nearly 60% of our 2020 energy consumption was in the form of natural gas, which is used to power our kilns that sinter the ceramic components of the PX. Our facilities with kilns, San Leandro and Tracy, comply with federal, state and local regulations. Air quality permits are issued annually by the proper authorities following an assessment of raw material usage and emissions.

EMPLOYEE SPOTLIGHT



Stephania Delgado

Program Manager, Water Business Unit
3 Years working at Energy Recovery

Katy, TX

Stephania currently oversees and coordinates various projects, products, and other strategic initiatives across Energy Recovery's Water Business Unit. Prior, she worked as a Systems Integration Engineer with Energy Recovery's Field Operations team, where she focused on the PX and VorTeq project life cycle development specifications, system performance validation, and new product commissioning. She also served as a Manufacturing Engineer focused on increasing efficiency of machining the tungsten carbide pressure exchanger cartridges used in the VorTeq.

How does Energy Recovery prioritize efficiency and the environment within its operations in Katy, Texas?

In the town of Katy, a hub of the oil and gas industry, there is always friction between energy needs and what is best for the environment. The VorTeq offers hydraulic fracturing operations an opportunity to reduce the footprint we leave behind in our environment. Thanks to this innovation out of our Katy operations, we can minimize air pollution and emissions by recovering the wasted energy from typical completion operations and reapplying it to those same processes.

What internal innovations have supported the company's manufacturing?

I had the opportunity to get Six Sigma training, which helped me implement and refine manufacturing processes by applying continuous improvement and Lean Manufacturing principles to all areas of production. I was also able to be part of the implementation of Enterprise Resource Planning processes, by the use of Dynamics 365, Advanced Warehouse Management, and Manufacturing Execution System.



Employees



Fostering a Culture to Power Our Future

We strive for an exciting, safe, collaborative work environment at Energy Recovery. Our company is built around innovation and driven by diversity of thought and background. We are proud of this culture and believe it creates a vital competitive advantage. As we grow into a multi-industry company, a focus on the talent that brought us this far is critical. Energy Recovery’s vibrant team of employees across the globe are the key to our success. As our business evolves, we intend to evolve our work environment along with it to best support our growing team.

Employees have always been a top priority for our company, and the feedback from stakeholders in the materiality assessment only reinforced this notion. Through this process, we developed specific goals related to workforce development and safety. Senior leadership is committed to meeting specific targets, and we will continue to report on our progress in subsequent ESG reporting.

As a manufacturing company, we are committed to protecting the lives and livelihoods of our employees through a safe and healthy work environment.

For this reason, we continue to invest in enhancements to our safety program and promote continuous dialogue on the subject. Like many companies, the COVID-19 pandemic brought a heightened awareness regarding personal safety to our work culture. For example, for more than 18 months, a cross-functional team of executive stakeholders and others met weekly to review logistics, acknowledge changes, and implement next steps.

More broadly, we seek to sustain our culture and develop our workforce for the future by strengthening all phases of the employee tenure from recruitment and onboarding to professional development and other retention strategies. This includes providing fair pay and benefits to ensure that our employees have access to fulfilling opportunities and peace of mind, as well as promoting inclusivity. Furthermore, we enable all employees to participate as an owner of the company via stock grants and thus benefit from the fruits of their labor.

Collectively, we form a productive and innovative global team united by our pursuit of continuous improvement as we seek to solve complex industrial challenges.

Safety

As a growing industrial company with new and expanding business lines, safety is critical to our success. For this reason, we have included safety as one of our five core values. Perhaps more importantly, we made tangible progress on keeping employees safe and injury-free the past year, matching sentiment with action.

In 2020, we committed to implementing and certifying Energy Recovery to the ISO 45001 occupational health and safety standard (ISO 45001), an internationally recognized safety management system. In 2021, we completed third-party auditing, and all manufacturing locations have been recommended for certification. However, the process has already led to improved outcomes.

Our 2020 total recordable incident rate was 4.03, a 43% reduction from the prior year, with zero fatalities.

Several enhancements helped drive the reduction in injuries. In 2019, we implemented a rigorous tracking system for near misses – incidents in which no property is damaged and no personal injury sustained, but where, given a slight shift in time or position, damage or injury could have occurred. For 2020 (the first full year of reporting), our near miss frequency rate was 8.06. A near miss triggers a review. Based on those findings, a Safety Internal Corrective Action is opened and tracked until the corrective action is complete. In addition to near misses, incidents, audits, and employee suggestions may also trigger a Safety Internal Corrective Action. Monthly safety walks, part of the internal auditing process, have become an essential tool for identifying potential hazards and preventing injury. We anticipate our near miss frequency rate could potentially increase in future years as we seek to encourage a strong culture of incident reporting across our organization.

In 2020, we also invested in strengthening our safety program through the formalization and expansion of training. The trainings covered Occupational Safety and Health Administration (OSHA) mandated topics, as well as COVID-19 training and company-specific topics such as high-pressure testing.

We provide nearly half of our safety training via a webinar format customized specifically for our operations. Both employees and contractors utilize this platform, which enables us to conveniently train individuals, whether on-site or remote. We created dedicated safety computer stations, where our on-site manufacturing employees may complete their assigned training topics. Additionally, we implemented Safety Toolbox Talks. These monthly informal group discussions focus on a particular safety issue and provide a refresher on safety training topics. They also serve to promote safety culture and encourage dialogue around health and safety.

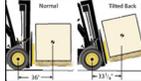
energy recovery
QHSE

Date: 04/01/21 Toolbox Talk #10

FORKLIFT SAFETY



Improperly distributed loads may tip the forklift because the center of gravity has shifted



Tilting the mast back reduces the load distance and makes the load safer to carry

Handling The Load

Preparation

- Secure the load so it is safely arranged and stable.
- Do not carry damaged merchandise unless it has been secured by wrapping or banding.
- Center the load as nearly as possible.
- Use caution when handling off-center loads that cannot be centered.
- Distribute the heaviest part of the load nearest the front wheels of the forklift.
- Do not overload. Know the stated capacity of your forklift and do not exceed it. Only by keeping within the weight limit can you operate the forklift safely.
- A forklift's capacity is rated for a specified load center. If the load is off-center, improperly distributed, or oversized, it may exceed capacity and unbalance the forklift.
- Use the load extension backrest.

Approaching the Load

- Approach the load slowly and carefully, stopping 8 to 12 inches in front of the load.
- Place the truck squarely in front of the load with the forks at the correct height.
- Set the direction control to neutral.
- Do not raise or lower the forks unless the forklift is stopped and the brake is set.

Fork Position

- Level the forks before inserting them into the pallet.
- The forks must be placed under the load as far as possible.
- Slide the forks into the pallet until they are fully under the load. The forks should be at least two-thirds the length of the load.
- Be careful that the forks do not go through to the other side where pallets are closely stacked.
- Center the weight of the load between the forks. Adjust the forks to distribute the weight evenly.
- Tilt the mast back carefully to stabilize the load.

Lifting the Load

- Check that there is adequate overhead clearance before raising the load.
- Make sure there is sufficient headroom under overhead installations, lights, pipes, etc.
- Carefully lift the load up above the lower stack about 4 inches.
- Lift the load and then tilt the mast slightly to rest the load against the backrest extension.
- Ensure that the load does not catch on any obstructions.
- Slowly return the lift control lever to the neutral position.

Group Discussion Topics

Is your forklift in good condition? (i.e. tires, hydraulic lines, signage, etc.).
What are some of the forklift hazards specific to your workplace?

QHSE Team

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CA 94577
(510) 483-7370

2000 Chabot Court
Tracy, CA 95304
(510) 488-6610

25430 Clay Road
Katy, TX 77493
(281) 371-6678

Example of a Safety Toolbox Talk handout

The Quality, Health, Safety, and Environment department (QHSE) is responsible for Energy Recovery’s safety management system, including the Injury and Illness Prevention Program (IIPP). QHSE, Human Resources (HR), and Manufacturing work together to implement, operate, and oversee our IIPP. At Energy Recovery, we believe that everyone should be accountable for upholding a safe work environment for ourselves and our fellow team members. To this end, we implemented quarterly cross-functional safety reviews. Participants include senior leadership and managers from the QHSE, HR, Engineering, Finance, Facilities, Manufacturing, and ESG departments. During these meetings, we review key outputs, such as incident rates, as well as key inputs, such as implementation of preventive measures, training, and employee suggestions.

Beyond these leadership meetings, we consult with employees at all levels for input on the safety management system. In addition to the monthly Safety Toolbox Talks, employees have access to various other feedback mechanisms. Employees are encouraged to report hazards and may do so anonymously by way of a Hazard Identification Card. Reports are submitted directly to the location’s QHSE department director and corrective actions are taken, where applicable. We further promote employees’ engagement by empowering everyone to stop work if they identify an unsafe condition under our Stop Work Authority program. Recently, we added the deployment of safety initiatives to the annual incentive plan of production employees.

		
Hazard Identification Card		
Unsafe Condition or Hazard Observed		
Name (Optional):		
Location of Hazard:		
Date and Time condition was observed:		
Description of the unsafe condition or hazard:		
<small>Scan the above code or use the following link for electronic reporting with optional picture: https://app.smartshet.com/h/form/37967ad35d048996da6ff512fee422 </small>		

QR code blurred for report purposes.



>> ABOVE & BEYOND

Supporting Employees during COVID-19

At the onset of the COVID-19 pandemic, Energy Recovery implemented safety protocols and new procedures to protect our employees. Throughout 2020 and much of 2021, we continued these practices and evolved them along with the pandemic's own progression. Thanks to these efforts, we have had no known cases of communal spread of COVID-19 at our facilities, despite a majority of our production and R&D staff working on-site since June 2020.

To maintain the safety of employees who must work on-site, our strict COVID-19 protocols meet and exceed government requirements and include:

- *The provision of all necessary personal safety equipment, such as mask and gloves, and mandatory use*
- *Enhanced cleaning procedures to regularly disinfect facilities throughout the day and between shifts*
- *Shifts configured to ensure social distancing between workers*
- *Installation of infrared thermometers and required temperature screening upon arrival to work site*
- *Weekly COVID-19 testing for employees and vendors working on-site, along with contact tracing for any positive test results*
- *Work from home policy with stipend for employees in support function roles*
- *Employees prohibited from coming on-site if they have any cold or flu-like symptoms, or known COVID-19 exposure. In these cases, employees are granted paid time off – a practice we implemented prior to the federal mandate.*

These measures allowed us to remain operational and not only maintain, but grow our workforce and achieve our best product revenue result to date. Beyond the protocols themselves, we focused heavily on employee engagement to ensure the peace of mind of our employees. Our proactive outreach effort to employees working on-site helped us retain over 94% of our production staff in 2020, at the height of COVID-19. Our production headcount actually increased by more than 20% in 2020. Our support extended to remote employees as well. We provided virtual ergonomics training to help these individuals adapt to work from home long-term.

As cases declined in the United States in spring 2021, our Return to Site (RTS) Committee began to analyze a variety of approaches to bring all employees back to the office as thoughtfully and safely as possible. We deployed multiple staff surveys, researched ever-evolving regulations and best practices, and provided time off to all global employees for COVID-19 vaccination and recovery.

Recognizing that many had questions on the efficacy and safety of the COVID-19 vaccine, we hosted guest speaker Dr. Margaret Liu, Chairman of the Board for the International Society for Vaccines. Dr. Liu is a founder of the field of DNA-based vaccines and advises on both plasmid and mRNA vaccine technologies. During the educational session, Dr. Liu shared her expertise on the COVID-19 vaccine and answered the most common questions for the Energy Recovery team.

In preparation for the return of more employees to the office, additional workspace was opened within our San Leandro headquarters to facilitate better social distancing. We also invested in new heating, ventilation, and air conditioning (HVAC) and ionization systems to help increase air flow through the building and protect against viruses. We have a disciplined, yet flexible return to work policy designed to meet the needs of our diverse staff and will continue to balance the value of in-person collaboration with the safety of our team.

Talent Attraction and Retention

We are focused on creating a positive and engaging experience for employees throughout their journey with the company. In 2020, we maintained a high employee retention rate of 94% (as compared to 93% year prior), even with 15% headcount growth. As part of our goal to develop our workforce to deliver sustainable, diversified growth, we have set a target of maintaining our retention rate above 90% each year and reducing our new hire turnover rate to less than 10%.

Our workforce development process begins with targeted talent recruitment to attract the best and the brightest. For several years, we have engaged local students as a means of facilitating a pipeline of talent. In 2021, a team of students from California State University, East Bay, worked with us on a data analysis project to optimize kiln production as part of their capstone project. These collaborations also serve to reinforce our community connections.

In addition, our employee training programs continue to evolve. This year, we added quarterly trainings on topics such as Energy Recovery's products and ESG. These trainings are standard as part of the new employee onboarding process, and are made available to all employees who wish to expand their knowledge. We also launched a leadership development series in June 2020, which consists of two tracks: one for managers with direct reports (our People Leaders series), and another for project leaders and company influencers. Beyond these in-house programs, we offer tuition assistance to encourage employees to continue their education. Employees may receive tuition assistance for traditional forms of education such as undergraduate and graduate degree programs that enhance their ability to perform in their current role or potential future role at Energy Recovery.

Leadership Development Series

- Leadership Balance
- Human Dynamics
- Trust Assessment
- Commitment Cycle
- Crucial Conversations
- Change Management
- Performance Management
- Leadership Styles
- Powerful 1:1s
- Influencing Styles



Compensation and Benefits

Beyond professional development, we recognize that we must provide employees with tangible benefits that contribute to their wellness and personal fulfillment. Energy Recovery views our competitive pay and benefits as a crucial component in attracting and retaining the best talent. We routinely analyze and evaluate our pay structure against the market. Furthermore, in recognition of the resilience, teamwork, and dedication to safety shown by employees during the challenging year of 2020, Energy Recovery granted an additional 10% to each full-time employee's bonus compensation.

Our benefits package includes comprehensive medical, dental, and vision benefits, in addition to a robust wellness program and paid time off. Over the past year, we have added a number of enhancements to the wellness program. In 2021, we expanded the Employee Assistance Program to include access to a confidential phone line, which serves as a resource that employees and their family members can access 24/7 in times of need. We adapted other pieces of our wellness program to fit a virtual environment. We provide weekly virtual classes on meditation, strength and conditioning, and yoga, in addition to three week-long events throughout the year. These themed wellness weeks provide employees information and resources to support their mental, financial, and physical health.

For employees at our physical work sites, we are proud to offer complimentary lunch, including vegan options. We also provide options to promote healthy snacking and flavored, carbonated water as an alternative to soda or other high-sugar content drinks.

Furthermore, we offer peace of mind to employees through benefits such as identity protection and legal services, disability and life insurance, and employer-matched 401(k) retirement benefits. All employees are included in our share-based equity award program, which allows every regular, full-time employee the ability to become a shareholder of the company once they have worked for Energy Recovery for the requisite time period. Since the onset of this program, Energy Recovery's share price has outperformed its peers, generating value for shareholders and employees alike.

All regular, full-time employees are included in our share-based equity award program.





CELEBRATING Diversity and Inclusion

At Energy Recovery, we believe that different perspectives lead to better outcomes. Diversity at Energy Recovery encompasses not only race and culture, but different backgrounds and experience. We are committed to creating a workplace where everyone is valued, not just as an employee, but as a person. Although we still have work ahead of us, through empathy, kindness, and respect for one another, we strive to create an inclusive work environment that engages all the viewpoints and styles that our diverse teams have to offer.

CELEBRATING Diversity and Inclusion



"I'm known as the default historian at Energy Recovery. I've been here for over two decades and have witnessed firsthand the company's evolution. Since day one, diversity has been ingrained in our culture, just like innovation. I'm blessed to lead an amazing group of high performing professionals that are literally scattered all over the planet. When you pull from a broader spectrum of thought and leverage that in your decision-making process, it's powerful. Traveling throughout the world, people will look different, people will have different beliefs. But at our core, if we listen and respect each other, we're able to not only understand each other but experience intense learning. Energy Recovery does this really well. It's a recipe that's hard to duplicate."

Rodney Clemente

Senior Vice President, Water



"I'm four years into my career, therefore I don't have the years of experience that many of my peers do. I began my career as a field engineer working for one of the world's largest oil and gas service companies. That experience led me to Energy Recovery. My first day on the job, the field service manager gave me a tour of the yard. Right off the bat, I noticed the VorTeq technology.

It was extraordinary to see a system where sand doesn't flow through the high-pressure pumps and flows solely through the VorTeq system. I observed a few possible design improvements and began to bring these things up in meetings with Operations and R&D, even directly with our Chief Technology Officer. After various discussions, it was determined that many of these design improvements were not at the top of our priority list. As we continued to work together, sifting through options, one of my suggestions kept floating up higher and higher. This component is now fully implemented within VorTeq and prevents back flow of slurry fluid into our system. I'm very thankful that I'm able to use my experience from the field to help expand VorTeq and know that my ideas will always be heard."

James Vazquez

Systems Integration Engineer

CELEBRATING *Diversity and Inclusion*



"I feel like I work for a company that looks like the United Nations. I grew up overseas and having those different perspectives and viewpoints is really important to me. When I recently approached the leadership team about creating a women's group at Energy Recovery, it was met with broad support. This receptiveness to new ideas is just one of the reasons I enjoy working here."

Kelley Vendeland

**Senior Director,
Communications and ESG**



"After a decade with the Energy Recovery manufacturing team, I know I speak for them in saying that we admire the talent of the engineering team and enjoy working with them. We've collaborated on many interesting projects, and it brings together so many different types of experience. We also have an innovative, diverse team within manufacturing. Everyone works together not only on the pump and turbo side, but also on the ceramic side. It makes it a very wide-ranging shop."

Harry Avakian

**Manufacturing
Manager**



Products



Embedding Sustainability into Our Business Ecosystem

At Energy Recovery, we are committed to embedding sustainability across our entire business ecosystem, ensuring our ability to meet and exceed our ESG goals.

Beyond the staff that bring our ideas and technology to life every day, our external stakeholders are integral to our continued success. We rely on the ideas and input of our customers and suppliers to improve the efficacy, reach, and impact of our products and business. To keep pace with our external stakeholders and the industries of which we are part, Energy Recovery belongs to several industry associations and organizations. Beyond the obvious benefits of peer collaboration and educational opportunities, our memberships provide another avenue for us to voice our opinion on the sustainability issues most important to our business and by nature, our entire business ecosystem. We could not shape our approach to ESG without the involvement

of the stakeholders that helped evolve Energy Recovery from a small start-up to the global, publicly traded company that we are today. As we chart the future of our business, our stakeholders will continue to remain a driving force behind our strategy, and we look forward to continued engagement.

Our Customers

Our customers look to our products for reliable solutions that ultimately help them achieve their commercial, technical, and sustainability goals. Our technology reduces energy consumption, minimizes waste, and increases efficiency to thereby lower cost and drive long-term value and sustainability of our customers' operations.

In the desalination industry, the Energy Recovery name is synonymous with trust, performance, and reliability. Our core pressure exchanger technology helped transform the industry by providing significant energy savings and reliable performance to customers, which in turn reduces life cycle cost, including repairs, maintenance, and equipment downtime. As opposed to alternative ERDs, the PX Pressure Exchanger requires no scheduled maintenance. The ceramic components of the PX are highly durable, and after 25 years, early models are still running strong. We can essentially insert our technology into a desalination plant, where it operates for the life of the plant.





“Energy Recovery’s pressure exchanger technology is already a trusted global standard. The addition of the PX PowerTrain makes the deployment of the PX even more streamlined, allowing us to meet tight project timelines reliably. The PX PowerTrain system, Energy Recovery’s knowledgeable team, and our experience working with the company on previous projects made Energy Recovery the easy choice. IDE Technologies is proud to partner with Energy Recovery in providing comprehensive water solutions to regions in need, and to empower ground-breaking facilities like our Sorek B Plant.”

Gregory Shtelman

*Partnership Deputy Manager and
Desalination Project Manager
IDE Technologies*



The substantial technological benefits of the PX were crucial in driving the transition to SWRO desalination from more energy-intensive thermal desalination legacy technologies. The PX also drove down the cost of providing desalinated water.

We continue to be a catalyst for innovation today. Our PX has helped our customers innovate to deliver clean water around the world. For example, in August 2020, we announced our contract to supply PX devices to the largest floating desalination project in the world. The project, which will soon be operational, will supply water to the Saline Water Conversion Corporation, providing fresh water to various regions across the Red Sea. We are also proud to share that our PX Pressure Exchangers and our PX PowerTrain™ systems will be installed in the Sorek B Seawater Reverse Osmosis Desalination Plant, which will be the largest SWRO plant in Israel and one of the largest facilities of this type in the world, producing 200 million cubic meters of water per year.

When our customers want uncompromising quality, they know they can trust Energy Recovery – and the steadfast performance of our technology – to help them achieve their goals. To that end, we foster trust with our customer base through both our proven technology and the relationships we develop and maintain. We focus on building meaningful partnerships with our customers to ensure we are empowering them, as we care deeply about the reliable reputation tied to our name. Delivering products and solutions customers can trust is also critically important to us as we develop solutions to accelerate environmental sustainability and lower costs in new industries.

This track record of reliability is why our customers know they can trust us in navigating new challenges. As governments across the globe are increasing their focus on water conservation and protecting water quality, they are establishing more stringent requirements for industrial wastewater treatment. As the need for industrial wastewater treatment grows, the energy efficiency of these operations becomes increasingly important. With the Ultra PX, our core pressure exchanger technology is tackling water quality and scarcity issues in new ways, while providing significant cost and energy usage reductions to our customers in this exciting new market.

Our global presence has been critical in allowing us to maintain constant contact with our customers, particularly through the challenges of the current global pandemic. We maintain a sales and service footprint in strategic regions, enabling us to meet customers' needs readily and rapidly, no matter their location. We have direct sales and service teams based around the world, including Canada, China, Egypt, India, Jordan, Peru, Spain, United Arab Emirates, and the U.S. This global workforce is especially important as we look to expand our customer base with an expanding portfolio of new products in new industries.

Our sales and service teams maintain active and open lines of communication with our customers. This thoughtful, responsive, and continuous engagement with customers allows us to remain nimble and shift resources in real-time to ensure their needs are fully understood, and our products remain in-line with their expectations from all vantage points – operational, environmental, and social. Just as we hold ourselves to the highest standard of operation, our customers hold us to it as well. This is why, for example, we actively participate in requests for supplier sustainability screens.

We provide customers a path to enhance the sustainability of their businesses, and we have been extraordinarily successful in that endeavor as demonstrated by the financial, energy, and emissions savings delivered by our products.



EMPLOYEE SPOTLIGHT

Ping Zuo

Sales Director, Water

14 Years working at Energy Recovery

📍 Shanghai, China

Ping is the Sales Director of Water who covers Chinese, Taiwanese, and South Korean markets and is responsible for many large deals in the region. She loves working directly with customers and guiding them through the industrial wastewater regulations and enforcements specific to these countries.

What are some of the specific requirements for industrial wastewater treatment in China?

The Chinese government is requesting that industrial companies build ZLD plants to avoid the discharge of the industrial wastewater. It has set clear objectives for ecological and green development in order to maintain global ecological security.

What have been some of the challenges for industrial wastewater treatment?

The challenge for industrial wastewater treatment is designing the process and demonstrating how to reduce both capital and operating expenditures simultaneously. Chinese customers enjoy testing every innovative technology in the ZLD market, which is an opportunity for Energy Recovery, as our Ultra PX is unparalleled in the industry.

What are you most proud of as part of the Energy Recovery Team?

I appreciate working with a smart, international team full of passion and energy. My team's biggest success is introducing and selling an amazing product, the PX, all over the world. This is a dream team in the water industry.



Our Communities

At Energy Recovery, we are committed to supporting the well-being of the communities where our employees live and work with the same spirit that drives efficient and sustainable solutions for our customers.

Our aim is to empower community partners who are aligned with our core values and can help advance causes about which our employees are passionate. We embrace our communities by donating both our time and funds to organizations that make a difference for the better. Historically, our corporate giving has focused on contributions to disaster relief, such as aiding those who have been affected by natural disasters like the wildfires that have torn through California in recent years.

In 2020, we established a more structured approach to corporate giving through the creation of our Social Investment Program (SIP). The program is led by a cross-functional task force and is centered around contributing to three pillars:

Aligned with the SIP, we successfully launched our **GlobalGiving** partnership and gift card program this past year. GlobalGiving is a nonprofit that connects donors with grassroots projects around the world. Through this program, Energy Recovery pays for and provides gift cards to employees that they may use to donate to organizations on the GlobalGiving website. Additionally, when employees use their gift cards, their donations are matched dollar-for-dollar by Energy Recovery, maximizing their impact and enabling our team to support their local communities and causes of their choice. Each organization on GlobalGiving has been thoroughly vetted, and those that are selected to be featured on our company landing page align with our core values and mission to address water scarcity, improve education, and aid disaster relief efforts.

So far, our partnership with GlobalGiving has provided funds to organizations with missions like providing clean water for families in Latin America, educating children on the effects of climate change and pollution in our waterways, and providing STEM education for at-risk youth.



Water

Our business and our technology were built around providing affordable access to clean water around the globe. We believe our social investments should reflect that goal as well.



Education

At the heart of our growth is our innovative spirit, powered by the engineers that push limits in the design, manufacturing, and applications of our technology each day. By contributing to education, we will continue to support brilliant young minds that will help make this world more sustainable.



Disaster Relief

Throughout our history, we have stepped in to support our communities in difficult times. We have contributed to wildfire relief efforts in California, provided emergency drinking water in Texas, and participated in COVID-19 relief efforts around the world. We are proud to show up when it matters most.

Outside of the nonprofits and organizations supported through our GlobalGiving partnership, Energy Recovery has several established relationships with both local and global nonprofits, including Meals on Wheels, Water.org, and EveryoneOn. In 2020, our monetary support to EveryoneOn helped close the digital divide for families in low-income communities. EveryoneOn unlocks opportunity by connecting people to affordable internet service and computers, delivering digital skills training.

Our Community Partnerships

Our employees are active members of their communities, frequently volunteering their time, talent, and expertise to various initiatives. They not only connect Energy Recovery to communities across the world, but they thoughtfully guide our giving efforts in many ways.

This giving spirit was more important than ever in 2020. When the COVID-19 pandemic surged, we witnessed our team step up to the plate in new and unique ways. Our R&D engineers volunteered their expertise to support Livermore Instruments' "Retro Vent 19" ventilator project, a design-focused initiative aimed at meeting the global demand for ventilators early in the COVID-19 pandemic. One of our senior directors, alongside his son, used his 3-D printer to provide personal protective equipment to nurses and doctors working on the front lines in his



community. Additionally, over Thanksgiving last year, a team of Energy Recovery employees and their families volunteered to deliver meals to those in need. In Northern California, we provided meals to shelters housing women and children, while our team in Texas provided meals directly to families throughout the greater

Houston area. We are proud of the work our team does in and outside the office, and we will continue to empower our employees to give back. We plan to sustain the SIP and our community partnerships over time, further ingraining these programs into our culture.



EMPLOYEE SPOTLIGHT

Zaina Naser

Senior Specialist, Marketing Communications
3 Years working at Energy Recovery

 **San Leandro, CA**

Zaina manages content marketing, social media, and event strategy within Energy Recovery's marketing organization. She developed and now runs the company's SIP, which facilitates philanthropic contributions to local and global communities. Zaina credits her passion for combining corporate and philanthropic endeavors to her parents, who included her in their nonprofit projects as a child.

How did you get involved in this program?

When I first started, I was asked about the kind of goals that I wanted to set for myself professionally within Energy Recovery. I expressed my interest in marrying my background in nonprofit work with Energy Recovery's corporate investment in ESG initiatives.

Are there any SIP initiatives you are particularly proud of?

At the height of the pandemic, we partnered with Meals on Wheels to provide meals and groceries to our vulnerable populations, predominantly senior citizens, who were facing food scarcity at the time.

What's your favorite part about working at Energy Recovery?

Without a doubt, my favorite part is that it is a hub for creativity and innovative ideas. Of course, this applies to R&D and engineering, but it shows in all departments including marketing. We can really let our creativity fly.



Our Suppliers

Achieving our vision of making industrial operations more efficient and sustainable requires that we not only promote the environmental sustainability of customers' and our own operations, but that we thoroughly evaluate our own supply chain.

Ensuring we are a responsible operator begins with how we conduct business, whether in the United States or abroad. Our **Code of Business Conduct and Ethics** guides all leadership and staff, codifying best practices and requirements for interacting with customers, suppliers and other team members. All Energy Recovery employees operate following all applicable laws, regulations, and company policies that often exceed local requirements.

We recognize that our supply chain starts with our sourcing decisions. We obtain raw, processed, and pre-machined materials from our suppliers for our various products. We have staked our name on the precision of our manufacturing and the impact our products have on the world, and as such, we are fastidious about supplier selection, qualification, and compliance. We have a rigorous supplier vetting process in place. We conduct remote or on-site audits to ensure the ethical treatment of supplier employees, certify safe working conditions, and confirm that suppliers are abiding by all local laws and regulations.

However, as a growing company, we recognize the importance of fortifying our existing methodology. To this end, we enlisted a third-party supply chain data management resource in 2021 to provide evaluations of our suppliers on a range of ESG issues such as human trafficking and slavery, supplier diversity, and environmental impact. We are working to collect, analyze, and manage supplier policies, referencing frameworks such as the SDGs and the International Labour Organization Declaration on Fundamental Principles and Rights at Work.

In the future, we plan to utilize this benchmark data to identify our downstream risks and opportunities in greater detail.

Some of the materials necessary for manufacturing our products present additional risk. We use tin and tungsten in some of our products, which are classified as potential conflict minerals mined from the Democratic Republic of Congo (DRC). Our purchasing policy and supplier selection process make it highly improbable that any conflict minerals are used in the manufacturing of our products. Nevertheless, we continue to work diligently to comply with and exceed the requirements regarding the ethical sourcing of these materials.

We conduct country of origin inquiries and perform due diligence on the source and chain of custody of conflict minerals. In our most recent **Conflict Minerals Report**, we engaged 12 in-scope suppliers and verified 239 smelters or refiners.

Furthermore, we have a Conflict Minerals Committee responsible for implementing our conflict mineral compliance policy and strategy. In our current **Conflict Minerals Sourcing Policy**, we outline the following expectations of our suppliers:

- Suppliers should not include in any products sold to Energy Recovery any conflict minerals from the DRC
- Suppliers should develop conflict minerals policies, due diligence frameworks, and management systems that are designed to prevent conflict minerals from the DRC being included in the products sold to Energy Recovery
- Energy Recovery's suppliers are expected to source conflict minerals only from sources that are DRC conflict-free

For more information on our policy regarding conflict minerals, please see our **Supply Chain Conflict Minerals Policy Statement**.

Additional risk in our supply chain is presented by suppliers that we deem as critical.

Our supply chain framework classifies suppliers into three distinct groups: critical, engaging, and active.

Critical suppliers are those that represent a large percentage of purchase volume or are unique in their supplied product or services.

We work hand-in-hand with suppliers of critical materials. These close relationships help us maintain material consistency and expedite new product development while managing business risk. We have an active process to continuously assess risk and, when necessary, seek further diversification. In these instances, we have qualified stand-by or active alternate sources, and in others, we require that internal redundancy exist.

Furthermore, we work to minimize the potential disruption to manufacturing if supply shortages were to arise. For example, in the face of an uncertain global supply chain during the onset of COVID-19, we invested in additional raw material inventory for our marquee PX product line.

We continue to plan ahead to prevent future supply chain disruptions or anomalies from affecting our operations. According to the U.S. Geological Survey, the raw materials used to manufacture our products are currently available in many regions of the world. This is also true for the base material of our alumina ceramic, used to manufacture our PXs.

Continuous Engagement via Open Channels of Feedback

As we chart our path through the rest of 2021 and beyond, we pledge to retain open lines of communication with our stakeholders to ensure our efforts to embed sustainability into our business ecosystem are aligned with their needs and goals.

This communication, of course, starts from within our business. Our employees have been essential in the formation of our ESG program, providing feedback to our materiality assessment and program implementation. As we move forward, we plan to continue to host Town Halls, operational workshops, and educational sessions with our employees to garner additional input and foster ongoing support for our ESG goals.

We equally value the input of external stakeholders as well. We regularly meet and survey our customers and suppliers, not just to understand their operations, but also to discuss and determine how we can mutually support each other's sustainability ambitions.



Ethics and Compliance

At Energy Recovery, we work to instill a culture of transparency and integrity by striving for the highest ethical standards. Each employee is expected to work with integrity through all business encounters and situations. Through this consistent personal accountability, we create the foundation for our success. We understand that it is important to achieve our business goals, but that it is even more important that we do so in an ethical fashion aligned with laws, regulations, operating policies, our **Code of Business Conduct and Ethics** (the Code), and our core values.

The Code, which is fully supported by the Board, reflects this commitment. The Code provides a framework for our employees in their interactions with key stakeholders, including customers, suppliers, government agencies, communities, fellow employees, and shareholders. The Code is founded on the principles of competing with integrity, reporting business transactions accurately and within generally accepted accounting principles, avoiding conflicts of interest, and promoting a professional workplace.

As outlined in our policies, the Code applies to every employee, officer, and director. While the Code cannot address every situation that our employees may face while working, the principles it sets forth provide a guidepost to ensure we conduct ourselves in a consistently ethical manner.

Furthermore, the standards of conduct described in the Code are supplemented by specific Energy Recovery policies, such as the Foreign Corrupt Practices Act (FCPA) and insider trading policies.

Bribery, Corruption, and Anti-Competitive Practices

Our **FCPA Policy** ensures that our employees adhere to the regulations included in the FCPA. The FCPA is a U.S. law that makes it unlawful for companies and individuals to make payments to foreign government officials to assist in obtaining or retaining business. Due to its importance, we provide annual FCPA training to all employees with external-facing responsibilities. Through the scenario-based training, we instruct employees regarding the facets of the FCPA and their application to day-to-day business situations, thereby empowering our employees to conduct our business activities in full compliance with the law.

While our focus is on the FCPA, our employees must also comply with all local, regional, and national laws as they perform any business activities. Conducting business in another country that has different laws is not an excuse for noncompliance.

To promote compliance and regular communication about this standard, Energy Recovery requires employees to consult with our Chief Compliance Officer before offering anything of value to a foreign government official, conducting business with a foreign government official, or hiring a third party to perform work that may involve conducting business with a foreign government official.

Proper Marketing Practices

To promote ethical marketing and sales practices, we provide employees with comprehensive guidance on expectations, requirements, and compliance processes. Our sales teams are trained on these expectations and prepared to adhere to the highest ethical standards.

This guidance and training apply to all sales efforts, whether in-person or virtual. We always strive to sell our products, but we will never sacrifice our ethical standards in order to drive these sales.

Conflicts of Interest

All employees and non-employee directors are required to disclose potential conflicts of interest involving themselves or their family members to a supervisor, executive officer, or member of the Audit Committee as described in the Code.

The Board's Nominating and Corporate Governance Committee charter provides that the committee will review potential conflicts of interest, specifically those for Board members and senior executives.



Overseeing Ethical Standards within Energy Recovery

On behalf of the Board, our Audit and Nominating and Corporate Governance Committees are responsible for overseeing all matters related to business ethics and compliance. For instance, the Audit Committee reviews and investigates any matters pertaining to the integrity of management or adherence to the Code. The committees and their responsibilities are outlined in the "Corporate Governance" section on page [67](#).

To support a culture of communication, transparency, and accountability, Energy Recovery has created a comprehensive reporting system through an independent, third-party service. This confidential reporting system has been established for the receipt, retention, and treatment of complaints regarding accounting, internal controls, audit matters, or violations of the Code. Individuals may report their concerns online or via telephone. A notification of any new submission is sent to the President, the CEO, the CFO, the head of the Audit Committee, the General Counsel, the Chief Compliance Officer, the head of HR, and administrators.

We do not tolerate any retaliation against whistleblowers, and we highly encourage reporting misconduct. We strive to resolve every complaint in a timely manner with the utmost professionalism to ensure compliance with our standards and respect for all involved parties.



Corporate Governance

Energy Recovery and our Board of Directors believe that strong corporate governance principles are critical to our continued operating success and to ensure effective accountability, oversight, and alignment with our key stakeholders.



Our approach to corporate governance is focused on maximizing long-term sustainable value and the management of risk for the benefit of all of our stakeholders. Our corporate governance framework is guided by our Certificate of Incorporation, By-Laws, Board committee charters, Code of Business Conduct and Ethics, and our policies related to conflict minerals. In addition to these governing documents, which are publicly available on our [investor website](#), more information pertaining to corporate governance can be found in Energy Recovery's **2021 Proxy Statement**.

We believe strong corporate governance includes consistent engagement with our shareholders to ensure transparency and alignment. Energy Recovery engages shareholders on a variety of topics on an ongoing basis to ensure we address questions and concerns as well as seek input on policies and practices. Our engagement with shareholders is exemplified by a proactive approach including regular communication and access to management for both current and prospective investors.

Additional governance highlights and best practices include:



Proxy access rights for shareholders



One class of outstanding shares with each share entitled to one vote



Independent oversight – 5 of 6 directors are independent



Independent Lead Director with robust responsibilities



100% independent Board committees



Active Board oversight of strategy, risk management, and ESG



Focus on diversity – goal of adding two additional female directors in 2021



Prohibition on hedging or pledging company stock



New stringent clawback policy



Rigorous director and executive stock ownership guidelines

Recent Governance Updates

Energy Recovery's Board of Directors regularly assesses and refines our corporate governance policies to incorporate the valuable feedback of stakeholders, as well as align with evolving best practices. In 2020, a shareholder raised one item of critical concern to the attention of the Board. In response to this feedback, we conducted a review of our governance policies, which ultimately resulted in a proposal to modify our Board structure. At the 2021 Annual Meeting of Stockholders, we proposed the phased declassification of our Board over a three-year period. The proposal earned support and approval from a super-majority of our shareholders. As such, beginning with the 2023 Annual Meeting of Stockholders, the entire Board of Directors will be up for election on an annual basis.

The size of our Board was reduced from 7 to 6 upon the retirement of Ole Peter Lorentzen at this year's Annual Meeting of Stockholders. We intend to fill the current vacancy with a female director prior to December 31, 2021. We also plan to add another female director, which would expand the total number of directors to eight and reach our goal of three female directors by the end of 2021.



37.5% *Female directors by end of 2021*

Board Structure and Composition

50% *of Board is diverse*

83% *of Board is independent*

62 yrs. *Average director age*

4 of 6 *Current directors have served on Board for >6 years*

Delegation of Key Responsibilities at the Board Level

Energy Recovery's Board of Directors has three standing committees:

- 1** **Audit Committee**
- 2** **Compensation Committee**
- 3** **Nominating and Corporate Governance Committee**

Each committee has a focus on different key responsibilities and regularly reports to the entire Board. Detailed information on our Board composition and committee memberships can be found in our [2021 Proxy Statement](#).



Director & Position	1	2	3
Robert Yu Lang Mao <i>Chairman, President & Chief Executive Officer</i>			
Pamela Tondreau <i>Lead Independent Director</i>		C	M
Alexander J. Buehler <i>Independent Director</i>	C	M	
Olav Fjell <i>Independent Director</i>	M		M
Sherif Foda <i>Independent Director</i>		M	M
Arve Hanstveit <i>Independent Director</i>	M		C



C Chair **M** Member

Audit Committee

Energy Recovery's Audit Committee meets at least quarterly, or more frequently as necessary, and key responsibilities include:

- Overseeing the quality and integrity of our financial statements, accounting, and financial reporting processes, audits, and internal controls over financial reporting
- Evaluating, appointing, and compensating the independent auditor
- Assessing the performance of the internal audit function
- Establishing policy standards and guidelines for risk assessment management
- Monitoring compliance with legal and regulatory requirements
- Responding to the anonymous whistleblower hotline
- Reviewing and approving related party transactions
- Overseeing cybersecurity and other risks relevant to the company's information system controls and security

The Audit Committee is supported by the expertise of the Board and management, as well as internal and independent auditors ensuring robust oversight of key responsibilities. Each member of the Audit Committee is required to meet the independence requirements of the Nasdaq Stock Market and the Securities and Exchange Commission, as determined by the Board. Our Audit Committee charter is available on the [investor website](#).

Compensation Committee

Energy Recovery's Compensation Committee, which met seven times in 2020, executes responsibilities related to executive compensation and administering incentive and equity-based plans. The primary responsibilities of the Compensation Committee are as follows:

- Reviewing and approving overall compensation philosophy
- Designing and administering the executive compensation programs and policies that are aligned with business and compensation objectives
- Evaluating the performance of the Chief Executive Officer and approving his compensation and other terms of employment
- Determining and approving the annual compensation of the executive officers and Section 16 officers
- Administering the incentive and stock plans, including establishing guidelines, interpreting plan documents, selecting participants, approving grants and awards, and making other decisions regarding the operation of such plans
- Reviewing and recommending director compensation to the Board
- Retaining and overseeing its independent compensation consultant
- Reviewing compensation policies and practices to determine areas of resulting risk

The Compensation Committee charter is available on our [investor website](#).

Nominating and Corporate Governance Committee

Energy Recovery's Nominating and Corporate Governance Committee, which met six times in 2020, ensures the discharge of responsibilities to the Board and guarantees the Board and its committees meet their legal obligations. The primary responsibilities of the Nominating and Governance Committee are as follows:

- Identifying and recommending nominees to serve on the Board
- Monitoring the independence of directors of the Board and Board committees
- Overseeing the Board and Board committees' annual evaluation process
- Developing and overseeing compliance with corporate governance functions, including the procedures for compliance with significant applicable legal, ethical, and regulatory requirements that impact corporate governance
- Reviewing and recommending general corporate governance matters to the Board

Energy Recovery's Nominating and Corporate Governance Committee charter is available on our [investor website](#).

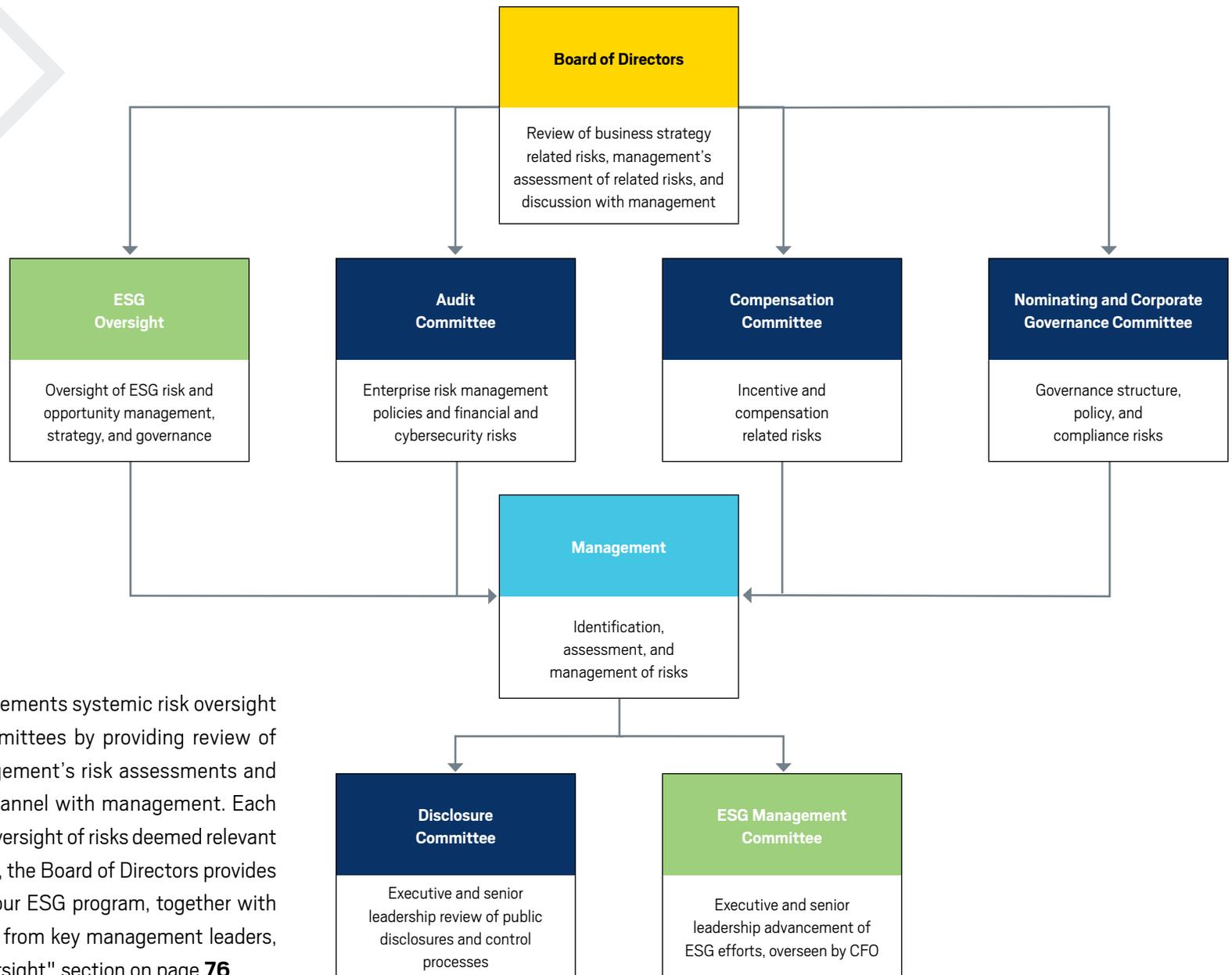
Director Nomination, Board Evaluation, and Refreshment

We believe diversity and inclusion are critical aspects of a responsible and effective Board. We recognize that diverse representation of age, gender, ethnicity, skills, experience, expertise, and therefore perspective, are necessary for the business and its overall success as a global enterprise. Furthermore, we believe it is important for our Board leadership to reflect the diversity of our customers and employees. Fifty percent of our Board are diverse based on gender and ethnicity, and we are committed to seat a total of three women on our Board by the end of 2021.

The Nominating and Corporate Governance Committee is charged with recommending new individuals to the Board. This committee is leading the process to name two additional female directors to our Board by year end as part of our commitment to ensuring a diverse mix of perspectives and experience. We also recognize the value of expertise and institutional knowledge brought by longer-term directors, as four of our six current directors have served on our Board for over six years.

The Nominating and Corporate Governance Committee ensures our commitment to maintaining the most appropriate mix of directors for our company. The Board and its Nominating and Corporate Governance Committee undertake an annual review of director independence. Additionally, the committee's charter requires it to conduct periodic assessments of the Board and committees' performance and provide the associated updates to the entire Board for discussion, a process designed to promote a highly effective Board.





Systemic Risk Oversight

Energy Recovery's Board implements systemic risk oversight directly and through its committees by providing review of business strategy and management's risk assessments and keeping an open feedback channel with management. Each committee is responsible for oversight of risks deemed relevant to their functions. Additionally, the Board of Directors provides overall strategic oversight of our ESG program, together with strategic and tactical support from key management leaders, as discussed in the "ESG Oversight" section on page [76](#).

EMPLOYEE SPOTLIGHT

Brendan Pope

Senior Network Engineer

4 Years working at Energy Recovery

 ***San Leandro, CA***

Brendan is part of the team that overhauled Energy Recovery's IT security strategy to ensure company systems and services such as email, shared folders, and other core business applications are protected. Before working at Energy Recovery, Brendan cut his teeth in remote Antarctica, where he learned to be resourceful thousands of miles away from any population center.

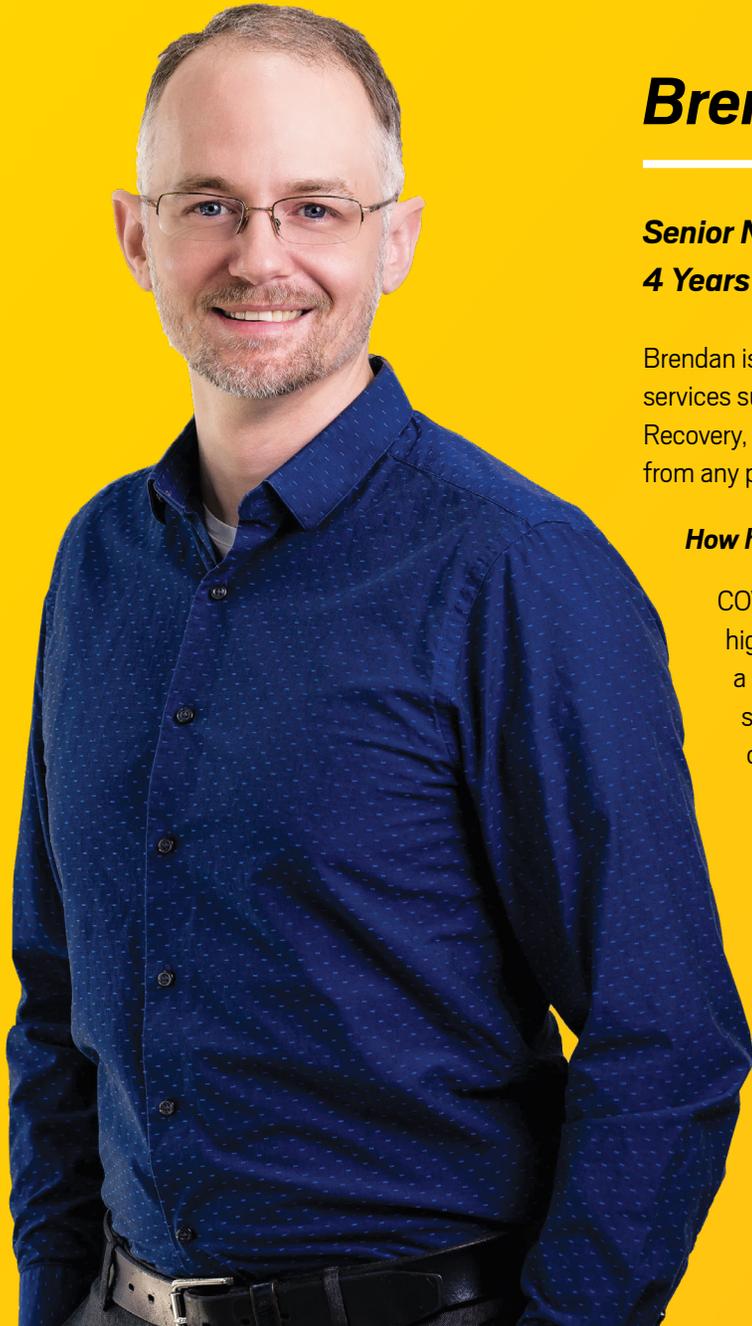
How have high-profile cybersecurity attacks shaped your approach to protecting Energy Recovery?

COVID-19 suddenly meant that a significant portion of the company was working remotely. Additionally, recent high-profile attacks underscored that any device could be a vector for a threat actor. We have implemented a software-defined perimeter to help protect our employees no matter where they work, and have a highly segmented network to make sure devices with older or proprietary software (such as industrial machinery or kilns) can be quickly isolated if needed. This allows us to triage and keep core systems functioning so we don't halt shipping and receiving or manufacturing if a breach should occur.

What steps can employees take to improve safety while working online? How does IT support employee education?

I cannot overemphasize the importance of a strong password. The key is length, such as a poem or saying, versus complexity – think something like “the quick brown fox jumps over the lazy dog.”

Energy Recovery provides biannual security training for all employees, and we often contract external experts to drive additional company-wide awareness. From an IT standpoint, it's critical that we have multiple redundant backups every 24 hours so that we can quickly recover lost data if a breach should occur. I really credit Energy Recovery's leadership for understanding the importance of this and prioritizing the appropriate investment in critical systems.



Our systemic risk oversight is used to identify, understand, and manage material risks relevant to Energy Recovery. The Board and management’s integration of risk oversight into their duties ensures proper management, supports our sustained performance and profitability, and thus increases shareholder value. Individualized risk management processes are engaged by the Board at the Audit and Compensation Committees.

The Audit Committee enacts broad risk management oversight on behalf of the Board through discussing and assessing our general approach to risk. It focuses its efforts on enterprise and financial risk management by engaging on these topics regularly, reviewing management’s procedural controls, and reporting associated risk exposures. Specific risk oversight includes but is not limited to financial risk exposures, tax strategy and risks, accounting and controls, business ethics and anti-corruption, significant commercial risks, and cybersecurity. Moreover, the Audit Committee is responsible for cybersecurity risks to ensure protection of Energy Recovery’s brand, systems, data, intellectual property, and employee information.

Through our proactive, enterprise-wide risk management assessment work, we have identified cybersecurity as a high-level risk that is overseen directly by the Audit Committee. As we expand our business and technological footprint, the importance of cybersecurity increases. Our risk management programs ensure active monitoring and management of IT security risks through enterprise-wide programs, annual employee training, and vulnerability assessments. Further, we continue to make investments in best-in-class IT workforce and leadership and have purchased cybersecurity insurance to protect against potential incident related costs. As is our approach with general risk management, we continuously and consciously enhance our programs, people, processes, technology, and apply risk-based procedures establishing first-class prevention, detection, and response initiatives – exemplified by third-party audits and system penetration testing.

Additional information on our approach to systemic risk oversight and associated procedures can be found in our **Form 10-K**.

Compensation

The Compensation Committee is composed of entirely independent directors and is responsible for establishing and implementing executive compensation policies and procedures consistent with company objectives and principles. The Compensation Committee also guarantees the mitigation of compensation related risks through its involvement in the construction and approval of compensation and related-incentive plans, encouraging appropriate risk behavior and supporting the success of Energy Recovery’s business. Further, CEO and senior management succession planning fall under the purview of the Compensation Committee. The committee’s approach to succession planning targets appropriate expertise and institutional knowledge, ensuring transitional ease.

Energy Recovery applies a compensation philosophy that supports the success of our business. Our compensation plan objectives are to target, retain, and motivate the talent necessary to execute on the strategic and financial goals of the company. In turn, we seek to reward superior performance and align the long-term interests of our executives with our shareholders.



Therefore, a pillar of our executive compensation philosophy policy is designed to link executive compensation to our performance through at-risk compensation opportunities, providing significant reward to executives based on the company’s success. Additionally, we are committed to supporting best practice pay policies:

<i>Best Practice Pay Policies</i>	
1	<i>Substantial Portion of Compensation is At-Risk</i>
2	<i>Long-Term Vesting</i>
3	<i>Stock Ownership Guidelines</i>
4	<i>No Repricing of Stock Options</i>
5	<i>Double-trigger Change in Control</i>
6	<i>At-Will Employment of Executive Officers</i>
7	<i>Independent Compensation Committee</i>
8	<i>Risk Assessment</i>
9	<i>No Gross-Ups or Excessive Perquisites</i>
10	<i>No Excessive Severance</i>
11	<i>Clawback Policy</i>
12	<i>Standard Retirement Plan Benefits</i>

Energy Recovery also recognizes the importance of aligning our compensation practices with the market and peers. We retain an independent compensation consultant to advise on best practices to align with our goal to attract, retain, and incentivize our executives as well as assist in designing our compensation plan, which utilizes peer group compensation benchmarks to compare the company’s compensation structure. The independent consultant does not engage in additional consulting or other services with our company and is aligned with the SEC and Nasdaq listing standards. The Compensation Committee has determined that the consultant has not raised any conflicts of interest.

Executive and Director Compensation

Our executives are provided with incentives including annual cash incentive compensation and equity-based incentive compensation. The Annual Incentive Plan (AIP) is the company’s annual cash incentive plan designed to encourage the performance and retention of eligible employees in recognition of individual achievement that contributes to the strategic and financial success of the company. AIP performance metrics are outlined in our **2021 Proxy Statement**.

Energy Recovery’s equity-based incentive compensation program grants equity-based awards to eligible executives and employees. We use equity-based incentives to competitively retain and recruit top talent and align our employees with the long-term success of the company, in turn supporting the growth of shareholder value.



We also use director incentives to attract and retain talent at the Board level. Non-employee directors receive compensation for their services and an annual grant of stock options and restricted stock units. Additional details are available in our [**2021 Proxy Statement**](#).

Shareholder Rights

Energy Recovery believes that strong corporate governance practices are enhanced by providing accessibility to management through consistent engagement with our shareholders. We seek to proactively engage with shareholders throughout the year on a variety of topics. Additionally, we implement best practice shareholder rights policies, such as proxy rights, say on pay, and the recently approved declassification of the Board.

Our recent declassification of the Board demonstrates our commitment to consistently engage with shareholders, to evaluate our own structure and policies, and to make appropriate adjustments in a continually evolving business environment. We believe it is paramount for shareholders to have an opportunity to express their views on executive compensation. To this end, we conducted an advisory vote on executive compensation during our 2020 Annual Meeting of Stockholders. The Board and the Compensation Committee value shareholder sentiment, and to the extent a significant vote against executive compensation occurs, the Compensation Committee will evaluate whether additional actions to pay levels or structures are warranted. Furthermore, for the last two years, we have received shareholder support for our "Say on Pay" proposals above 90%.

ESG Oversight

Energy Recovery has formally incorporated ESG into Board meeting agendas since 2019 to promote the discussion of ESG topics and considerations. As outlined in the Systemic Risk Oversight section, our corporate governance structure is highly focused on effectively managing risk and preserving long-term, sustainable value for the benefit of our shareholders, our employees, and the broader ecosystem in which we operate. Such risk management is inclusive of ESG oversight at the Board, senior leadership, and management levels to ensure a congruent and action-driven approach to ESG across the organization. To enable effective oversight, we provide on-going education regarding ESG to these groups.

As we continue our ESG journey, our Board has identified ESG as a corporate priority, and thus we remain steadfast in our commitment to make ESG a critical topic of conversation at the entire Board level, rather than allocate it to a particular committee. The Board's review includes relevant ESG topics, risks, general considerations, and opportunities – informed by our materiality assessment, SASB and GRI reporting frameworks, and the SDGs. The Board has been instrumental in guiding the progression of our ESG program, including direct involvement in the materiality assessment and review of incremental KPIs disclosed and goals set.

At the senior leadership and management levels, we also established a cross-functional ESG Management Committee to advance our ESG efforts, embed sustainability into our culture, and empower our employees to achieve our goals. Our holistic approach to ESG is reflected through our ESG Management Committee, which drives forward and implements the Board's ESG strategy.



The ESG Management Committee was also instrumental in the completion of our materiality assessment, disclosure of incremental KPIs, and initiation of ESG goals. Through various channels of direct communication and engagement with our broader employee and external stakeholder groups, the ESG Management Committee's efforts are extremely important in aligning our organization and elevating real-time ESG priorities.

Our CFO oversees the work of the committee and has primary responsibility for the company's ESG program, including approval of the annual ESG report.

The Board and ESG Management Committee will be involved in efforts related to meeting our ESG goals and targets, such as planning, oversight, strategy, risk management, and provision of related metrics.



Postface: To Our Stakeholders

All of us at Energy Recovery are pleased to be able to share the details of our sustainability journey through our second annual ESG report. We recognize the continuous and critical nature of this effort and look forward to sharing updates on further progress. In the meantime, we welcome all feedback, thoughts, comments, or questions from our stakeholders on the contents found within this report and Energy Recovery's broader sustainability efforts. The input of our stakeholders is crucial to our continued success. For more information or to share any thoughts, please contact us at ESG@energyrecovery.com.

Content Index

SASB Index

Industrial Machinery & Goods – Accounting Metrics

Topic	SASB Code	Accounting Metric	Category	Unit of Measure	Response
Energy Management	RT-IG-130a.1	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	(1) 47,491 gigajoules in FY 2020 (2) 29% in FY 2020 (3) 0.4% in FY 2020
Employee Health & Safety	RT-IG-320a.1	(1) Total recordable incident rate (TRIR), (2) fatality rate, and (3) near miss frequency rate (NMFR)	Quantitative	Rate	(1) 4.03 in FY 2020 (2) 0.00 in FY 2020 (3) 8.06 in FY 2020
Fuel Economy & Emissions in Use-phase	RT-IG-410a.1	Sales-weighted fleet fuel efficiency for medium- and heavy-duty vehicles	Quantitative	Gallons per 1,000 ton-miles	Suggested accounting metrics for Fuel Economy & Emissions in Use-Phase are not applicable to Energy Recovery's business. As disclosed below, Energy Recovery modified suggested accounting metrics to demonstrate the energy efficiency and associated benefits of its energy recovery devices used in SWRO, an accounting metric it believes is highly relevant to its business model. Avoided electricity consumption from sold and shipped SWRO ERDs: 26.3 TWh/y in FY 2020 The above metric is calculated as the avoided electricity consumption that can be attributed to Energy Recovery's PX Pressure Exchanger and Turbocharger energy recovery devices sold and shipped to customers globally still in use, an amount associated with avoiding approximately 12.5 million metric tons of carbon emissions per year.
	RT-IG-410a.2	Sales-weighted fuel efficiency for non-road equipment	Quantitative	Gallons per hour	
	RT-IG-410a.3	Sales-weighted fuel efficiency for stationary generators	Quantitative	Watts per gallon	
	RT-IG-410a.4	Sales-weighted emissions of: (1) nitrogen oxides (NOx) and (2) particulate matter (PM) for: (a) marine diesel engines, (b) locomotive diesel engines, (c) on-road medium- and heavy-duty engines, and (d) other non-road diesel engines	Quantitative	Grams per kilowatt-hour	

Materials Sourcing	RT-IG-440a.1	Description of the management of risks associated with the use of critical materials	Discussion and Analysis	n/a	FY 2020 ESG Report > Our Suppliers (pages 63-64) Please see Energy Recovery's conflict mineral sourcing policy, conflict minerals report, and conflict minerals statement located on the company's investor website .
Remanufacturing Design & Services	RT-IG-440b.1	Revenue from remanufactured products and remanufacturing services	Quantitative	Reporting currency	Not applicable

RT-IG-130a.1 - (1) Excludes: leased facilities in Houston, Dubai, and Shanghai for which leased facility data was not available; de minimis diesel consumption in San Leandro; work from home employees. Includes Tracy facility, which was commissioned in July 2020; electricity usage for Tracy estimated from July-Oct prior to meter switch over.

RT-IG-130a.1 - (3) Energy Recovery installed solar panels in Katy in FY 2020.

RT-IG-320a.1 - (1) Excludes contractor hours and international personnel hours. The company plans to re-evaluate the ability to incorporate these numbers for future reports.

RT-IG-320a.1 - (3) Energy Recovery put in place tracking processes for this data in FY 2019. FY 2020 is the first full year of data.

RT-IG-410a.1 ; RT-IG-410a.2 ; RT-IG-410a.3 ; RT-IG-410a.4 - The estimate is based on actual sales figures and assumptions about the percentage of our cumulative SWRO ERD sales operating globally. PX Pressure Exchangers have a design life of over 25 years; therefore, this accounting metric assumes that the majority of our sold and shipped Pressure Exchangers are in operation. Although it is possible that SWRO ERDs shipped in FY 2020 may have been in the process of being commissioned and not fully operating as of fiscal year end, Energy Recovery does not have access to this data and therefore uses SWRO ERDs sold and shipped through the end of FY 2020 as the basis for this calculation. As SWRO ERDs constitute the majority of our sales through end of FY 2020, pumps and non-SWRO products are excluded from this calculation. The calculated CO₂ emissions reductions is based on 1.05 lbs CO₂/kWh emissions factor as published by the International Energy Agency as of 2018, which has been updated in our model. Energy Recovery also added Turbochargers to the FY 2020 estimate. Taking into account these updates in methodology, the FY 2019 avoided electricity consumption is 21.9 TWh/y and carbon emissions avoided is 10.4 million metric tons. Assumed avoided electricity per PX Pressure Exchanger unit is based on nominal PX Pressure Exchanger efficiency of 96%, turbocharger efficiency of 69%, pump efficiency of 80%, motor efficiency of 96%, 64 bar nominal membrane pressure, and 42.5% membrane recovery.

Industrial Machinery & Goods – Activity Metrics

Topic	SASB Code	Activity Metric	Category	Unit of Measure	Response
-	RT-IG-000.A	Number of units produced by product category	Quantitative	Number	Energy Recovery does not disclose the number of units produced by product category. For a financial breakdown by business segment, please see Item 7 in our 2020 Annual Report .
-	RT-IG-000.B	Number of employees	Quantitative	Number	216 as of Dec. 31, 2020

Electrical & Electronic Equipment – Accounting Metrics

Topic	SASB Code	Accounting Metric	Category	Unit of Measure	Response
Product Lifecycle Management	RT-EE-410a.3	Revenue from renewable energy-related and energy efficiency-related products	Quantitative	Reporting Currency	\$90.5M in FY 2020 (98% of total FY 2020 product revenue across all business segments).

RT-EE-410a.3 – Includes revenue from products incorporated into systems which recover and reuse otherwise wasted energy. Energy Recovery updated this definition in FY 2020 based on detailed product mapping. With this updated methodology, the FY 2019 metric is \$66.1M, 91% of total FY 2019 product revenue.

GRI Content Index – General Disclosures 2016

Certain materials throughout this ESG report and the below table reference GRI 2016 Standards including 102-18 – Governance Structure, 102-19 – Delegating Authority, 102-20 – Executive-level responsibility for economic, environmental, and social topics, 102-21 – Consulting stakeholders on economic, environmental, and social topics, 102-22 – Composition of the highest governance body and its committees, 102-23 – Chair of the highest governance body, 102-24 – Nominating and selecting the highest governance body, 102-25 – Conflicts of Interest, 102-26 – Role of highest governance body in setting purpose, values, and strategy, 102-27 – Collective knowledge of highest governance body, 102-28 – Evaluating the highest governance body’s performance, 102-29 – Identifying and managing economic, environmental, and social impacts, 102-30 – Effectiveness of risk management processes, 102-31 – Review of economic, environmental, and social topics, 102-32 – Highest governance body’s role in sustainability reporting, 102-33 – Communicating critical concerns, 102-34 – Nature and total number of critical concerns, 102-35 – Remuneration policies, 102-36 – Process for determining remuneration, 102-37 – Stakeholders’ involvement in remuneration, 102-38 – Annual total compensation ratio, and 102-39 – Percentage increase in annual total compensation ratio.

GRI Indicator	Description	Reference
102-18	Governance structure	<ul style="list-style-type: none"> • 2021 Proxy Statement pages 12-16 • FY 2020 ESG Report > ESG Oversight (pages 76-77) • Committee Charters • Board of Directors
102-19	Delegating authority	<ul style="list-style-type: none"> • FY 2020 ESG Report > ESG Oversight (pages 76-77)
102-20	Executive-level responsibility for economic, environmental, and social topics	<ul style="list-style-type: none"> • FY 2020 ESG Report > ESG Oversight (pages 76-77)

102-21	Consulting stakeholders on economic, environmental, and social topics	<ul style="list-style-type: none"> FY 2020 ESG Report > Materiality Assessment (pages 12-14)
102-22	Composition of the highest governance body and its committees	<ul style="list-style-type: none"> 2021 Proxy Statement pages 12-16 Committee Charters
102-23	Chair of the highest governance body	<ul style="list-style-type: none"> 2021 Proxy Statement page 12
102-24	Nominating and selecting the highest governance body	<ul style="list-style-type: none"> 2021 Proxy Statement pages 13-16 FY 2020 ESG Report > Board Structure and Composition (pages 68-72) Nominating and Corporate Governance Committee Charter
102-25	Conflicts of interest	<ul style="list-style-type: none"> 2021 Proxy Statement pages 13-14, 17, 39
102-26	Role of highest governance body in setting purpose, values, and strategy	<ul style="list-style-type: none"> FY 2020 ESG Report > Our Approach to ESG (pages 12-25) FY 2020 ESG Report > ESG Oversight (pages 76-77)
102-27	Collective knowledge of highest governance body	<ul style="list-style-type: none"> 2021 Proxy Statement page 13, 36-39 FY 2020 ESG Report > ESG Oversight (pages 76-77)
102-28	Evaluating the highest governance body's performance	<ul style="list-style-type: none"> FY 2020 ESG Report > Director Nomination, Board Evaluation, and Refreshment (page 71)
102-29	Identifying and managing economic, environmental, and social impacts	<ul style="list-style-type: none"> FY 2020 ESG Report > Materiality Assessment (pages 12-14)
102-30	Effectiveness of risk management processes	<ul style="list-style-type: none"> 2021 Proxy Statement page 16-17 FY 2020 ESG Report > Systemic Risk Oversight (page pages 72-74) FY 2020 ESG Report > ESG Oversight (pages 76-77)
102-31	Review of economic, environmental, and social topics	<ul style="list-style-type: none"> FY 2020 ESG Report > Systemic Risk Oversight (pages 72-74) FY 2020 ESG Report > ESG Oversight (pages 76-77)
102-32	Highest governance body's role in sustainability reporting	<ul style="list-style-type: none"> FY 2020 ESG Report > ESG Oversight (pages 76-77)



102-33	Communicating critical concerns	<ul style="list-style-type: none"> • 2021 Proxy Statement pages S-3, 17 • FY 2020 ESG Report > Ethics and Compliance (pages 65-66)
102-34	Nature and total number of critical concerns	<ul style="list-style-type: none"> • FY 2020 ESG Report > Recent Governance Updates (page 68)
102-35	Remuneration policies	<ul style="list-style-type: none"> • 2021 Proxy Statement pages S-3, 22-25
102-36	Process for determining remuneration	<ul style="list-style-type: none"> • 2021 Proxy Statement page 24
102-37	Stakeholders' involvement in remuneration	<ul style="list-style-type: none"> • 2021 Proxy Statement pages 11, 24-25 • Compensation Committee Charter
102-38	Annual total compensation ratio	<ul style="list-style-type: none"> • 2021 Proxy Statement pages 29-30, 35
102-39	Percentage increase in annual total compensation ratio	<p>The ratio between the annual total compensation of the Chief Executive Officer and the annual total compensation for the median employee was 20:1 in 2019 and 19.6:1 in 2020. For more information, see our 2020 Proxy Statement, page 56 and our 2021 Proxy Statement, page 35.</p>