



*Trusted Solutions for a Sustainable Future*



*2021 ESG Report*

# Introduction

## About this Report

We are pleased to present Energy Recovery's ("we," "our," "Energy Recovery," or "the company") third annual Environmental, Social, and Governance (ESG) report, which describes our ESG efforts and performance for our fiscal year 2021 from January 1, 2021, to December 31, 2021, and includes all company operations worldwide, unless otherwise noted. We have also incorporated select examples of our ESG efforts to date in 2022. This report outlines our multipronged 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, and we are proud members of the IFRS Sustainability Alliance. We have also included select disclosures aligned with the Global Reporting Initiative (GRI) framework and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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. Detailed footnotes regarding data presented throughout this report are located in the SASB Index and Performance Tables starting on [page 57](#). 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](mailto: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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# A Message from **Robert Mao**

## Chairman of the Board, President, and CEO

### Dear Fellow Stakeholders,

As we celebrate our 30-year anniversary at Energy Recovery, we also celebrate the third year of our formal Environmental, Social, and Governance (ESG) program. While our rigorous approach to ESG is relatively new, the goal of enhancing sustainability for our customers and the world has been with us since the very beginning.

Our ESG program continues to support this goal in substantial and important ways. In this report, for example, **we are sharing for the first time our greenhouse gas (GHG) emissions.** This milestone, part of our response to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), is a testament to our commitment to greater transparency, operational efficiency, and making a positive impact. Kelley Vendeland, our Vice President of Marketing and ESG, describes how our GHG disclosure and TCFD efforts fit into our broader ESG journey in the following pages.

Energy Recovery was founded on the premise that our pressure exchanger (PX) energy recovery technology can make water desalination more affordable and accessible by reducing electricity consumption and costs, which in turn cuts carbon emissions. We have done exactly that and, more recently, applied our pressure exchanger technology to new markets with a similar goal in mind: to improve efficiency and sustainability. Today, on an annual basis, we help customers save nearly \$4 billion in energy expenses and avoid 14.5 million metric tons of emissions, the equivalent of removing more than three million gasoline-powered passenger vehicles from the road each year. While the majority of these reductions come from our desalination products today, we are focused on growing the positive economic and sustainability impacts of our pressure exchanger technology in other important industries, including: **industrial wastewater treatment** and **CO<sub>2</sub> refrigeration.**

By taking a broader view of the water market, inclusive of both desalination and industrial wastewater, we are expanding the ways we can help enhance access to clean water for more communities around the world. As water scarcity worsens and governments continue to adopt increasingly stringent wastewater regulations, our energy recovery devices (ERDs) can play a key role in facilitating reuse and conservation efforts in a more sustainable way. At a time when the United Nations estimates a 40% gap between global water supply and demand by 2030, our work here is critical.



We are installing our ERDs in several industrial wastewater treatment facilities, which includes the first commercial deployments of our newest wastewater ERD, the Ultra PX™. We believe our impact in industrial wastewater can mirror what we've done, and continue to do, in desalination.

Concurrently, regulation is driving a global transition from synthetic refrigerants called hydrofluorocarbons (HFCs) to natural refrigerants such as CO<sub>2</sub>, which has posed significant challenges for the refrigeration industry. HFCs are a class of powerful man-made greenhouse gases with a global warming potential (an internationally recognized standard for measuring the global warming impact of different gases) that is anywhere from 1,000 to 13,000 times worse for the environment than CO<sub>2</sub>. The environmental case is clear; however, the core barrier to CO<sub>2</sub> refrigeration adoption is economic. CO<sub>2</sub> systems generally require more electricity to operate than HFC systems, leading to higher operating costs. To address this challenge and offset the increase in energy consumption, Energy Recovery is working with refrigeration manufacturing partners to design an environmentally friendly, next-generation CO<sub>2</sub> refrigeration system featuring our PX G1300™ energy recovery device. The PX G1300 facilitates improved efficiency and lower electricity consumption and emissions in high-pressure CO<sub>2</sub> systems. In 2022, we signed multiple joint development agreements with global refrigeration rack manufacturers to design PX G1300-integrated CO<sub>2</sub> systems. We continue to receive interest from other refrigeration manufacturers, since our product makes the transition to CO<sub>2</sub> refrigeration more sustainable and financially attractive.

With our consistently strong performance in the desalination space and our disciplined expansion into new markets, our business is growing. We achieved an average annual product revenue growth of 20% from 2015 to 2021, and building upon this success, we have set ambitious growth targets to match our high expectations. We expect this strong growth to continue based on our core technology's value proposition – reducing energy consumption and costs associated with industrial processes. As we continue forward, we're laser-focused on applying our technology to additional industries where we can drive efficiency gains and accelerate sustainability.

In marking three decades of serving our customers, it's crucial that we recognize the talent and culture that has made this possible and its importance for our future. We appreciate that our talent strategies must evolve to support our growth, as running a larger and more complex company will demand new skills and evolved leadership over time. To this end, we are strengthening our Human Resources and talent strategy programs to develop our workforce, achieve our growth and retention targets, encourage diversity, and meet the evolving needs of our employees. Over the past few years, we have more than doubled capacity, and our targeted expansion will continue to support increasing production, making it even more important that we continue to focus on safety. Consequently, we are focused on improving our safety program through our ISO 45001 certification, among other strategic initiatives. Additionally, we know that our best ideas come from diverse perspectives at all levels of our organization, and we're proud of the increased diversity we've achieved on our Board of Directors, which is now composed of 43% women and 29% people of color.

Our value proposition at Energy Recovery is deeply rooted in ESG principles, and we are fully aligned with global efforts to ensure the health and prosperity of our world for generations to come. We will maintain proactive communication with our stakeholders on our sustainability objectives and progress toward our goals.

The latest Intergovernmental Panel on Climate Change (IPCC) report did not mince words — now is the moment for our society as a whole to come together to fight climate change. We all have a responsibility to tackle this crisis of our time, and I'm proud to lead a company fully committed to playing its part.



**Robert Mao**

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

# Letter from **Kelley Vendeland**

## Vice President of Marketing and ESG

### Dear Fellow Stakeholders,

It is simply amazing what a team can accomplish in three years. Since launching our formal ESG journey in 2019, Energy Recovery has made important strides that have enhanced our ability to sustainably grow and positively impact our investors, customers, employees, and communities.

This year's report highlights the many ways we continue to progress, most notably including our first full accounting of GHG emissions associated with our business. The disclosure is foundational to our efforts to respond to the TCFD's recommendations by the end of 2024, which we view as critical to ensuring stakeholders can properly evaluate our sustainability performance, and addressing anticipated regulations. Our view was validated in March 2022 when the U.S. Securities and Exchange Commission issued a proposed rule that would mandate specific disclosures on GHG emissions and climate change risks. Our TCFD response work is well underway and is described further in the [Climate Risks and Opportunities](#) section of this report.

Our ESG efforts this year build on our 2020 materiality assessment, through which we engaged key stakeholders including internal leaders and employees, investors, and our Board of Directors to determine the 14 ESG topics most important to our business. Of the 14 key topics, we deemed four as highest priority — Employees, Environmental & Climate Change Risks, Innovation & Opportunity, and Products — and set goals for each. Our work in all four areas will allow us to reduce the climate impacts of our business and improve energy efficiency for our customers. I am excited to share the progress we have made since last year's report.

**Employees** — We recognize our success relies on our people. As such, we are investing in workforce health and safety and the continued development of our team. This includes systematic safety improvements such as new safety training software and achieving ISO 45001 certification, an occupational health and safety standard. We recognize the important role every team member plays in making us a stronger and more sustainable company. By the end of 2022, we aim to provide 100% of our new hires with sustainability training within three months of their hire date.



Our employee retention rate has remained above 90% for three years in a row and we are now certified as a [Great Place to Work](#), reflecting both a high degree of satisfaction within our workforce and our meaningful commitment to employee well-being.

**Environmental & Climate Change Risks** – In line with our TCFD goal, we are fully engaged in a comprehensive assessment to identify our climate-related risks and opportunities over the short, medium, and long-term. We also set a goal to obtain certification to the ISO 14001 Environmental Management Standard by the end of 2022, and I'm happy to report that we completed a third-party audit of all manufacturing locations and have been recommended for certification.

**Innovation & Opportunity** – We set a goal to double emissions reductions from the use of our products by the end of 2025 versus our 2019 baseline. We are well on our way, having improved energy savings through the use of our products by nearly 40% since 2019.

**Products** – We are committed to delivering products our customers can trust, with high standards of quality and safety. In 2020, we started disclosing our warranty expenses as a percentage of product revenue. Our goal, which we met in 2021, is to maintain warranty expenses below 1% of total product revenue, which positions us in the top quartile of our industry. We also measure our product quality and safety by monitoring financial impacts from warranty events and legal proceedings related to product incidents. I'm happy to report that we maintained our track record of minimal to zero financial impact in 2021.

Our achievements to date are the result of a sustained company-wide effort, and it has been rewarding to see our work recognized by others. Our MSCI rating has quickly climbed from 'BBB' to a current rating of 'AA.' In March 2022, IR Magazine awarded Energy Recovery "Best ESG Reporting" for small to mid-cap companies. Just a few months later, we won the "Best ESG Communications" award at IR Magazine's ESG Integration Forum.

Our successes have been driven by authentic engagement and feedback from our stakeholders, and we will continue to improve with ongoing input from our investors, employees, customers, and suppliers, among many others. Our business strategy is inherently aligned with broader sustainability objectives, positioning us well to manage the multitude of possibilities ahead. As climate-related risks, evolving workforce expectations, regulatory proposals, and other market changes present themselves, our company is well-prepared to adapt and grow sustainably.

I am proud to lead an ESG journey at a company firmly committed to creating a better future for both our stakeholders and society as a whole. There is still much to be done, and I look forward to doing it with our world-class team, who are truly advancing industrial sustainability across the globe.



**Kelley Vendeland**

*Vice President of Marketing and ESG at Energy Recovery*

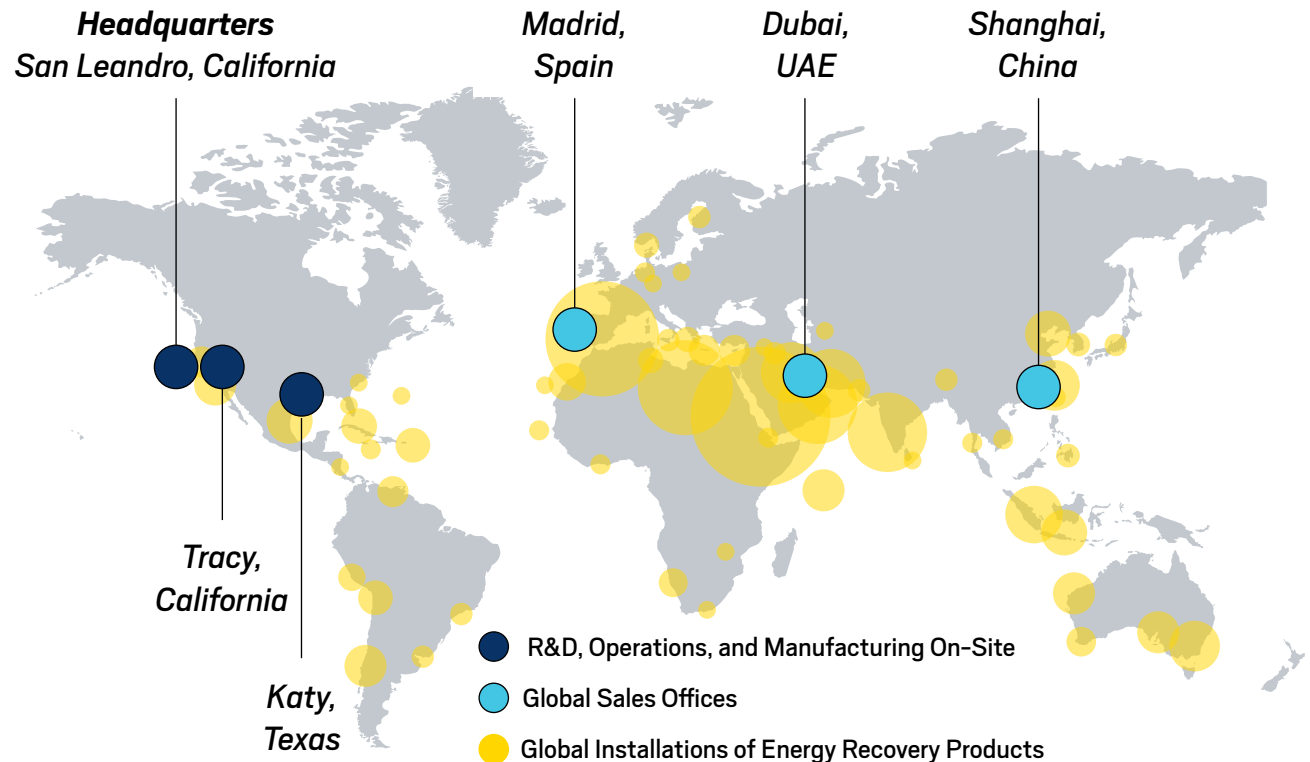
# Energy Recovery at a Glance

**222** Employees

**\$104M** Product Revenue

Employees in **11** Countries

**Energy Recovery** creates technologies that solve complex challenges for commercial and industrial fluid-flow markets worldwide. Building on our pressure exchanger technology platform, we design and manufacture solutions that make commercial and 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, Energy Recovery has manufacturing and research and development facilities across California and Texas with sales and on-site technical support available globally.








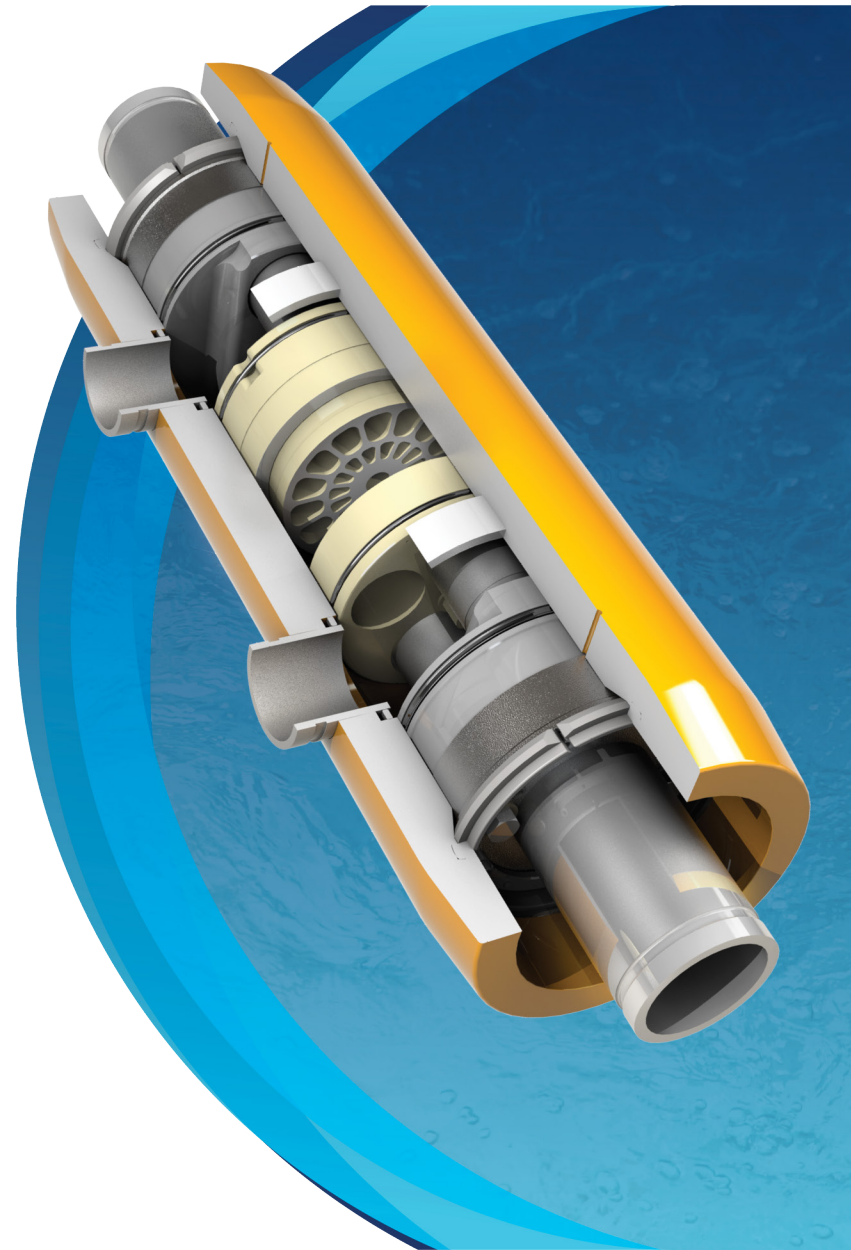
# The Pressure Exchanger

Our company was founded on a core technological innovation: the PX<sup>®</sup> Pressure Exchanger<sup>®</sup>. The PX recycles pressure energy within commercial and industrial systems, capturing it and redistributing it throughout the system to save energy, lower costs, and reduce waste and emissions. It acts as a fluid piston, transferring energy between high-pressure and low-pressure liquids (and in some cases gas) through a ceramic rotor with up to 98% efficiency. Designed with only one moving part using highly engineered alumina ceramic, the PX can withstand extremely harsh environments and requires no scheduled maintenance.

**Learn more about our core technology on [our website](#).**

Today, we are harnessing the high efficiency, reliability, and simple design of the PX and applying its proven success in desalination systems to new industries. Below are examples of how our PX technology advances sustainability.

	Energy Conservation	Lower Emissions	Reduced Costs
 <b>Seawater Desalination</b> <b>Brackish Water Desalination</b>	✓	✓	✓
 <b>Industrial Wastewater Treatment</b>	✓	✓	✓
 <b>CO<sub>2</sub> Refrigeration</b>	✓	✓	✓



# Highlights and Recognition

 **30 TWh** *Saved in Electricity Consumption\**

 **14.5M** *Metric Tons of Carbon Emissions Avoided\**

 **\$3.9B** *Energy Expenses Saved by Customers\**

 **112k kWh** *Solar Electricity Generated Internally*

 **Certification to ISO 45001:2018 Occupational Health and Safety Management System**

 **Recommended for Certification to ISO 14001:2015 Environmental Management System**

 **Cybersecurity Management Committee Formed**



**Winner “Best ESG Reporting (small to mid-cap)” and “Best ESG Communications” by IR Magazine**



**In 2022, Energy Recovery received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment.**



**MSCI ESG Leaders Index**



**“Great Place to Work” Certified**



**EcoVadis – Bronze Sustainability Rating for 2021**



**Sustainalytics ESG Risk Rating – Top third of the machinery industry**

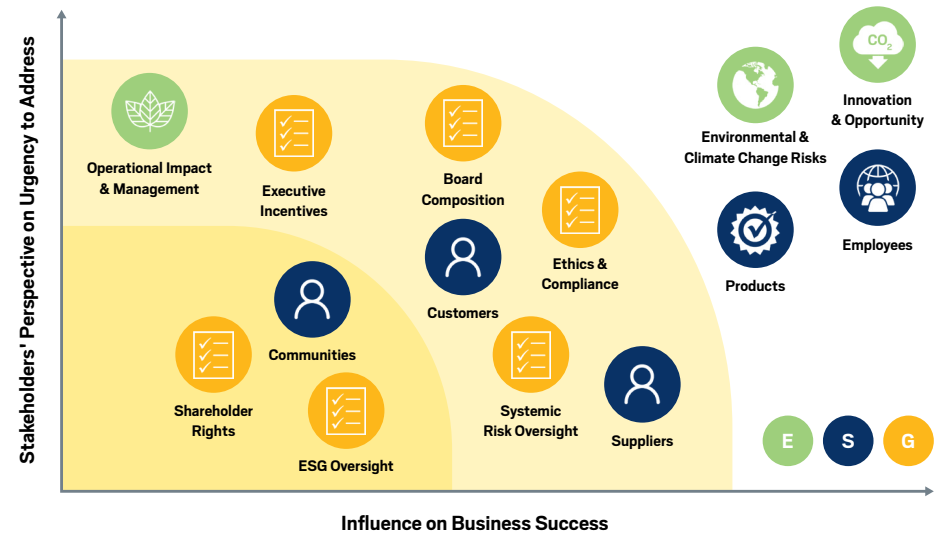


# Our Approach to ESG

## Our Material Topics

Our ESG program is driven by our business strategy and stakeholder feedback, which was a key element in conducting our 2020 materiality assessment. We engaged a wide segment of our stakeholders including internal leaders, investors, our Board of Directors, and a diverse cross section of our employees to determine 14 key ESG-related topics on which to focus our program. Four of those topics were deemed the most material to delivering long-term value to our stakeholders.

### Materiality Assessment Matrix





**Employees**

S



**Environmental & Climate Change Risks**

E



**Innovation & Opportunity**

E



**Products**

S

These four topics have become the cornerstone of our ESG program, with several measurable Key Performance Indicators (KPIs) and goals associated with each one. Several of these KPIs are ongoing and will require our continued attention to ensure that we remain on track year after year. Others have targeted deadlines and deliverables; as those are achieved, we will look for opportunities to create new KPIs in their place so that our program continues to evolve.

A high-level overview of our progress on our KPIs can be found in our [Goal Progress Dashboard](#), with additional details on our efforts throughout this report. Outside of our four key material topics, we have included updates on the remaining topics where there is new and relevant information to provide.

We expect this assessment to guide our ESG strategy for the next two to three years. We continuously evaluate our business, feedback from stakeholders, and the broader business landscape, and will adjust our priorities accordingly as we progress on our ESG journey.

## Meaningful Stakeholder Engagement



**Investors**

- Consistent and proactive investor and earnings calls
- Conferences
- Site visits and facilities tours

- In-person and virtual 1-on-1 meetings
- Screening questionnaires
- Investor Relations email listserv

- Investor Relations website
- Press releases
- Product presentations



**Employees**

- ESG roadshows
- Company intranet
- “Employee Connect” email announcements
- Quarterly Town Hall meetings

- Engagement surveys
- Employee sustainability suggestions
- Code of conduct



**Customers**

- Direct engagement with sales
- Supply chain surveys, EcoVadis
- Interviews, case studies, white papers, spotlights

- Direct marketing, trade shows, webinars
- Social media

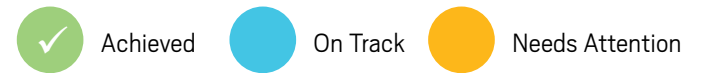


**Suppliers**

- Direct engagement with operations team
- Supply chain audits

- Trade shows
- Trade media

# Our Progress



Goal*	Target	Status
<b>Report climate-related risk strategy and management aligned with the TCFD by end of 2024</b>		
<b>Double emissions reductions from Energy Recovery products by end of 2025 vs. 2019 baseline</b>		
<b>Certification to ISO 14001 Environmental Management Standard by end of 2022</b>		
<b>Deliver products and solutions customers can trust</b>	Maintain warranty expenses below 1% of total product revenue	
	Maintain zero monetary losses associated with legal proceedings due to product health and safety incidents	
<b>Develop workforce to deliver sustainable, diversified growth</b>	Maintain retention rate above 90%	
	100% of new hires receive sustainability training within 3 months of hire date by 2022	
	Maintain new hire turnover rate below 10%	
<b>Protect the lives and livelihoods of our employees by providing a safe and healthy work environment</b>	Certification to ISO 45001 Occupational Health and Safety Management Standard	
	Near Miss Frequency Rate	
	Aim towards a total recordable incident rate (TRIR) of zero	
	Achieve 95% of the planned annual safety trainings for each employee group	

# Our 30-Year Journey

## 1992

Energy Recovery founded

## 1997

First PX device installed

## 2004

Affordable Desalination Collaboration (ADC) formed

## 2006

- Energy Recovery named Ex-im Bank's Environmental Exporter of the Year
- Over 1,500 PX units sold

## 2020

- Materiality assessment conducted
- First ESG report published
- Solar panels installed at Katy facility

## 2019

20,000 PX units sold

## 2013

Alumina recycling process created

## 2008

Company announced IPO

## 2021

- Began Task Force on Climate-related Financial Disclosures (TCFD) response and implementation process
- ESG Management Committee initiated
- Achieved ISO 45001 certification

## 2022

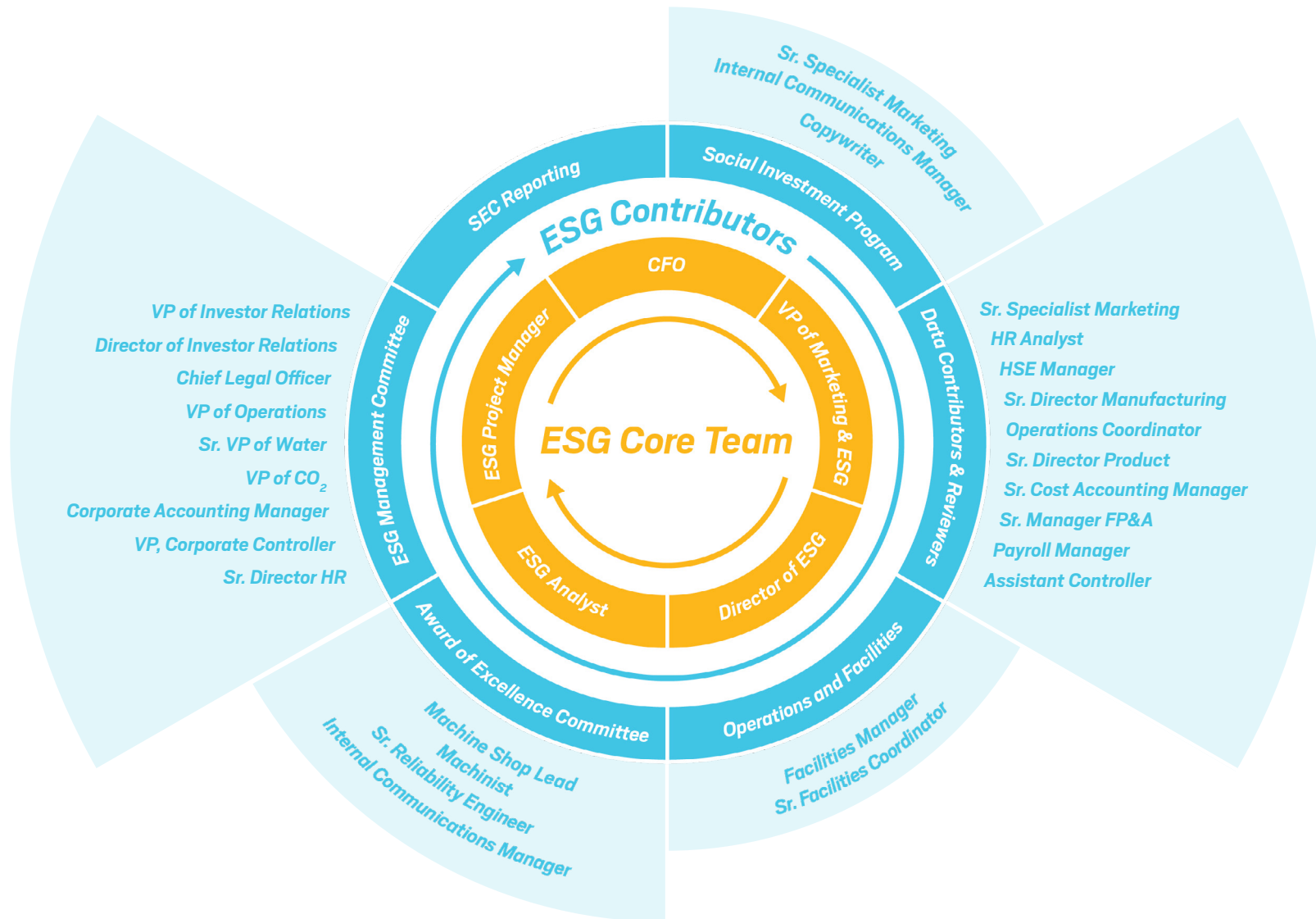
- 30,000 PX units sold
- Recommended for ISO 14001 certification
- MSCI ESG rating increased to AA
- Transitioned to 100% renewable electricity
- Received IR Magazine awards for ESG report and communications

 energy recovery

CONGRATULATIONS!

# Our Team

Achieving our goals and maintaining a robust ESG program is a collective effort that requires input and cooperation from a diverse cohort of departments and business units. The following departments and team members contribute significantly through oversight, data collection and analysis, strategy, execution, and more to continuously drive our program forward.



## Our UN SDG Alignment

# SUSTAINABLE DEVELOPMENT GOALS



**The United Nations Sustainable Development Goals (SDGs)** provide an ambitious and high-level blueprint for tackling some of the world's largest challenges to move towards peace and prosperity for all people and the planet. The SDGs are composed of 17 interlinked goals, in recognition of the fact that many of the world's challenges are connected. All UN member nations have now adopted the SDGs, and continued collaboration between governments, businesses, and society at large is essential to the success of this mission.

At Energy Recovery, we view the SDGs as an important accountability and measurement mechanism, and as such we are committed to advancing specific SDGs that align with our strengths as a business and our ability to make an outsized impact.



We have previously stated our alignment with the following SDGs: **SDG 6** – Clean Water and Sanitation, **SDG 7** – Affordable and Clean Energy, **SDG 9** – Industry, Innovation, and Infrastructure, **SDG 12** – Responsible Consumption and Production. In keeping with our commitment to advance our ESG program, we have identified one additional goal that aligns with our effort to mitigate climate change and identify risks and opportunities according to the TCFD: **SDG 13** – Climate Action.

## 6 CLEAN WATER AND SANITATION



### Target 6.1, 6.3, 6.4, 6.A

Our energy recovery devices, including our flagship PX® Pressure Exchanger®, positively impact the water industry by increasing efficiencies for water desalination facilities and reducing costs and emissions. Our Ultra PX™ for industrial wastewater treatment applications significantly reduces 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



### Target 7.3

Our products reduce emissions related to the production of vital resources through improved productivity, increased efficiency, and reduced energy consumption. Our energy recovery solutions save customers 14.5M metric tons of CO<sub>2</sub> equivalents annually, making resource-intensive industries, such as seawater desalination and industrial wastewater treatment, affordable and accessible.

## 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



### Target 9.2, 9.4

Our products and solutions help build more resilient infrastructure and advance sustainable industrialization by enabling energy and cost-efficient commercial and industrial processes. More than 120 countries have signed on to the Kigali Amendment, aligning with specified timelines to phasedown HFC use. Our PX G1300™ device offers customers the ability to future-proof refrigeration operations at a lower cost, improving their bottom line while reducing their carbon footprint and following international protocol.

## 12 RESPONSIBLE CONSUMPTION AND PRODUCTION



### Target 12.2, 12.4-7, 12.A

Our products and solutions are aligned in their focus on the efficient management and use of natural resources. Our emerging product lines in industries such as refrigeration are especially focused on accelerating the transition to natural refrigerants and reducing emissions from our customers' operations. Furthermore, in conjunction with pursuing ISO 14001 certification, we are committed to adopting more sustainable consumption and production practices in our own operations.

## 13 CLIMATE ACTION



### Target 13.1, 13.2, 13.3

Our product lines reduce energy consumption and greenhouse gas emissions globally, reclaim industrial wastewater, and provide drinking water to communities. Our decision to respond to the TCFD framework further integrates the management of climate change-related risks and opportunities into our business strategy and strengthens our resilience to natural disasters and hazards.

# Climate Risks and Opportunities

## Introduction

Energy Recovery is committed to measuring and managing our operational impact on the environment, which we prioritize equally with producing high-quality energy recovery devices and components. We view climate change and the proper management of the associated environmental risks and opportunities as directly correlated to our ability to deliver growth and long-term sustainable value for our stakeholders.

Our climate strategy positions us to reduce our risks while generating efficiencies and savings for our customers. As such, in 2020 we created forward-looking environmental goals aligned with findings from our materiality assessment to ensure we remain accountable to stakeholders and committed to progress.

Our team continues making important headway. For example, we have calculated our [scope 1 – 3 greenhouse gas \(GHG\) emissions](#) for fiscal years 2020 and 2021, ensuring we can accurately understand our environmental footprint, develop effective strategies to reduce our impact, and mitigate climate-related risks. We will continue to disclose our annual GHG emissions in future reporting periods.

Although Energy Recovery is a global organization, our operational footprint remains relatively limited to our three core R&D, operations, and manufacturing facilities, our global sales offices in Madrid, Dubai, and Shanghai, and the presence of distributed sales and service team members in other locations. We recognize the importance of maintaining an operational impact strategy that aligns with our mission, vision, and values and facilitates the sustainable pursuit of diversified and disciplined growth.

# Goal: Align with TCFD by 2024



## Environmental & Climate Change Risks

As announced in our [2020 ESG Report](#), our goal to respond to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) provides a structured approach to evaluating and communicating the potential impact climate change may have on our company. Over the past year, we have taken meaningful steps to ensure we can respond substantively and meaningfully to the TCFD's recommendations. Notably since publishing our last ESG Report, we have calculated our scope 1 – 3 GHG emissions for fiscal years 2020 and 2021, as outlined further in the [Managing our Footprint](#) section.

Additionally, with the support of a third-party advisor, we are undergoing a comprehensive assessment to identify our climate-related risks and opportunities over short, medium, and long-term time horizons in addition to evaluating the potential likelihood of occurrence and magnitude of impact.

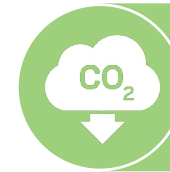


*We view our scope 1 – 3 GHG emissions assessment and identification of risks and opportunities as critical milestones as they position us to:*

1. Fully integrate climate-related risks into our existing enterprise risk management processes.
2. Effectively reduce our environmental impact.
3. Strengthen our oversight and governance of climate-related risks.
4. Effectively capitalize on the most value-creative climate-related opportunities.
5. Test the resilience of our business strategy under various climate scenarios through quantitative scenario analysis.
6. Improve the resilience of our business strategy through the transition to a lower carbon economy.

We are well-positioned to respond fully to the TCFD's recommendations by the end of 2024, in line with the goal we set last year, and plan to provide meaningful and incremental disclosure updates as our progress continues.

# Goal: Double Emissions Reductions from Our Products by 2025



## Innovation & Opportunity

KPI	2019 (baseline)	2020	2021	Target
<b>Total emissions avoided across all products per year*</b>	10.4 million metric tons	12.5 million metric tons	14.5 million metric tons	20.8 million metric tons by end of 2025
<b>Total increase in emissions avoided, YOY*</b>	Baseline	20% (2.1 million metric tons)	16% (2 million metric tons)	N/A
<b>Customer cost savings per year*</b>	\$2.2 billion	\$2.6 billion	\$3.9 billion	N/A



Since our earliest days, we have been focused on improving the energy efficiency of industrial processes, beginning with seawater reverse osmosis (SWRO) desalination. As we have expanded our scope into industrial wastewater treatment and CO<sub>2</sub> refrigeration, providing value to our customers by reducing their energy consumption and costs has remained central to our business strategy.

By 2019, the year we formally instituted our ESG program, our products were responsible for preventing 10.4 million metric tons of carbon emissions from entering the atmosphere. This was due primarily to the strong performance of our PX<sup>®</sup> Pressure Exchanger<sup>®</sup> for desalination, the leader in energy recovery devices for this market. Leveraging our game-changing pressure exchanger technology, we have since launched two new products that address emerging markets for our business: the Ultra PX for industrial wastewater treatment and the PX G1300 for CO<sub>2</sub> refrigeration.



# Customer Spotlight

## Claude “Bud” Lewis Carlsbad Desalination Plant

One example of our impact is the Claude “Bud” Lewis Carlsbad Desalination Plant in San Diego County, California. Owned by Poseidon Water, it is the largest saltwater desalination plant in the western hemisphere and provides 50 million gallons of drinking water per day for up to 112,000 households and is the first major California infrastructure project to completely eliminate its carbon footprint.

Energy Recovery helped the Carlsbad Plant realize this environmental breakthrough by providing IDE, the plant technology provider and operator, with 144 Pressure Exchangers. These PXs, which require no energy of their own to operate, help the plant save an estimated 116 million kWh of energy per year, the equivalent of \$12 million. Through this achievement, the Carlsbad project has moved the needle for the desalination industry in the U.S., demonstrating it as a viable solution to meet growing water demand when equipped with the appropriate technology.



# Goal: ISO 14001 Certification by 2022

In conjunction with our goal to increase the sustainability of our customers' operations, we also need to ensure that we are reducing Energy Recovery's environmental impact and improving our oversight mechanisms. Building on the [Environmental Mission Statement](#) that we released in 2021, we set a KPI to develop a comprehensive Environmental Management System (EMS) and certify it to the internationally recognized ISO 14001 standard. This formalizes our commitment to improving our environmental sustainability, holds ourselves accountable, and ensures that our program will continue to improve over time.

This goal first emerged during our [materiality assessment](#), when "Environmental & Climate Change Risks" and "Operational Impact & Management" were established as two highly material areas to our stakeholders. That same year, we began working towards the [ISO 45001](#) occupational health and safety standard, which we achieved in 2021. This achievement demonstrates that managing our environmental impact and ensuring the health and safety of our employees was, and continues to be, a significant priority at Energy Recovery. Successful adherence to the ISO framework relies upon serious commitment from all levels within the organization, particularly leadership, to ensure that the EMS is effective and continually improved. This effort is another example of how quickly we are transforming our business in order to responsibly pursue our robust growth goals.



## Environmental & Climate Change Risks



# The ISO 14001 Standard

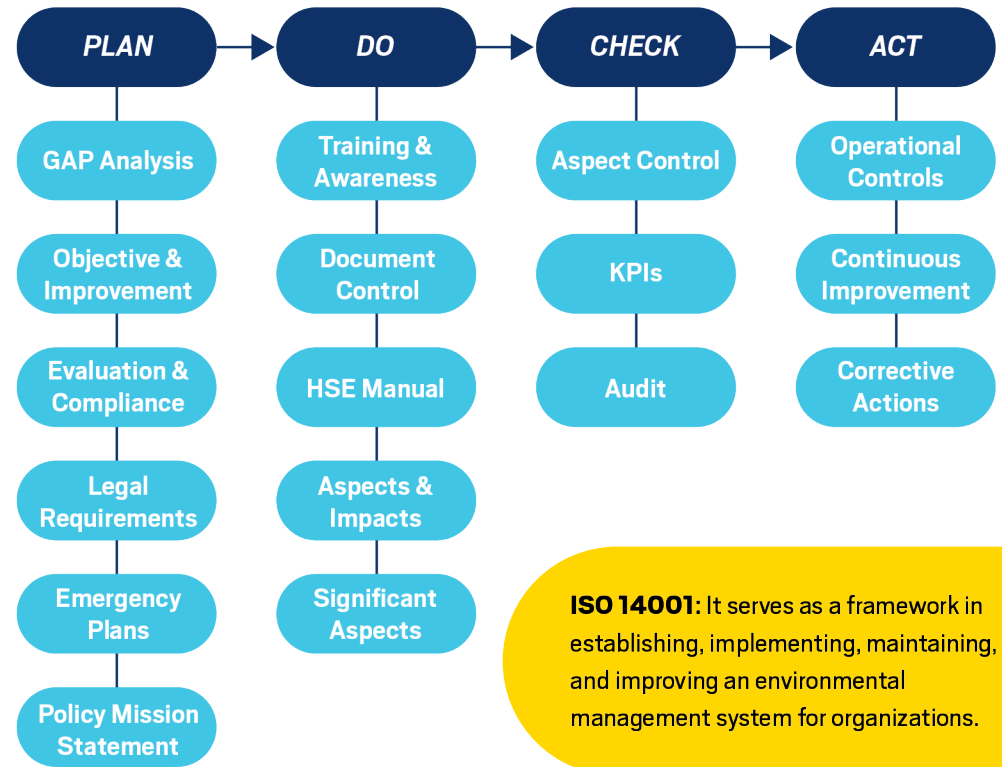
As with our other ISO certifications, we employ the “Plan, Do, Check, Act” methodology as a framework for establishing, maintaining, and improving our EMS. This methodology requires us to take on a high-level assessment of our environmental aspects, impacts, and management systems. We developed a custom quantitative scoring system to assess and prioritize our aspects and impacts according to the risk levels, controllability, legal obligation, and other factors.

After completing the assessment, we developed a set of environmental objectives designed to address our risks and opportunities. Our current environmental objectives for all three operations facilities (San Leandro, CA; Tracy, CA; and Katy, TX) are focused on improving energy efficiency, air quality, reducing waste, and helping our customers reduce their emissions.

As our EMS continues to develop, we will establish measurable key performance indicators and targets to address each objective and expand or replace them as we improve.

We have also strengthened our emergency preparedness procedures and comply with relevant regulations regarding air quality permits, storm water pollution prevention plans, spill prevention plans, and hazardous waste handling from the Environmental Protection Agency, the states of California and Texas, and Alameda, San Joaquin, and Harris counties. Our Hazardous Materials Business Plan (HMBP) has been filed with the State of California and is public; we have also voluntarily extended this process to the State of Texas where maintaining an HMBP is not a regulatory requirement.

Now that we have completed the required third-party audits and been recommended for the ISO 14001 certification, we begin the significant work of maintaining this system and continually improving upon it. The certification is a significant benchmark and will demonstrate that we have a robust plan in place to address our environmental impact; however, we recognize that there is still much work to be done, and we are committed to maintaining transparency on our progress in the future. As we scale our operations, internally and to new markets, our commitment to our EMS will ensure we remain responsible stewards of our environmental footprint.



**ISO 14001:** It serves as a framework in establishing, implementing, maintaining, and improving an environmental management system for organizations.

# Managing Our Footprint

Aligned with our materiality assessment, we prioritize the management of our company's operational impact through measurement, disclosure, and implementation of footprint reduction initiatives across GHG emissions, waste, and water. These measures are aimed at reducing the environmental impact of our operations in a myriad of ways, from recycling materials to mitigating trash in our offices.

## Calculating Our Emissions

As indicated in our [2020 ESG Report](#), Energy Recovery is committed to measuring and managing our impact as our business evolves and grows. Therefore, we have undergone a rigorous process in collaboration with a third-party advisor to calculate our scope 1 – 3 greenhouse gas (GHG) emissions for fiscal years 2020 and 2021.

Emissions reporting also signals an important step in our journey towards responding completely to the TCFD's recommendations by the end of 2024. This milestone will support our identification of climate-related risks and opportunities, unlock our ability to set meaningful reduction targets, and effectively assess the resilience of our business by stress-testing our strategy under various forward-looking climate scenarios.

Moving forward, we will use our 2020 emissions figures as our baseline to track our reduction efforts and set future targets as our business evolves and expands into new markets.

### **Methodology and GHG Emissions Inventory Approach**

The disclosed scope 1 and 2 emissions were calculated using the operational-control method according to the recommendations provided by the Greenhouse Gas Protocol (GHG Protocol).

We applied the GHG Protocol's specified emissions factors to calculate our emitted Metric Tons of Carbon Dioxide Equivalent (MT CO<sub>2</sub>e).

Our reported scope 1 and 2 emissions figures reflect the following Energy Recovery sites – San Leandro, CA; Tracy, CA; and Katy, TX. As of 2021, the aforementioned sites house more than 87% of our employees and the entirety of our company's R&D, operations, and on-site manufacturing. We believe this coverage is an appropriate and accurate reflection of our global emissions footprint given the relatively de-minimis scope 1 and 2 emissions outside of the United States associated with our global sales touch points.

As it pertains to our scope 3 emissions, we have included Energy Recovery sites within the U.S., as well as business travel-related emissions for all employees worldwide, including our global sales and service team.

Our scope 3 emissions were calculated leveraging our third-party advisor's proprietary model, which aligns with the guidance of the GHG Protocol and relies on recent EPA emissions factors and verified third-party data to determine indirect GHG emissions. Our company's scope 3 emissions footprint is driven predominantly by the following indirect emissions along our value chain: purchased goods and services, capital goods, waste services for operations, upstream leased assets, business travel and commuting, transportation and logistics of products and services, and other fuel and energy-related activities.

All emissions inputs and corresponding factors were reviewed comprehensively by our ESG team and third-party advisor to ensure accuracy. Further, we have a multi-step internal review process in place to review emissions and corresponding data, and we plan to engage a third-party consulting firm to perform an assurance readiness assessment in 2023.



### Scope 1 – 3 Greenhouse Gas Emissions

Per the above methodology and inventory approach, below we have outlined our total scope 1 – 3 emissions disaggregated by scope. To enable comparison to other companies and meaningfully track our progress, we have included our emissions on an intensity basis, specifically emissions per revenue (\$M).

Metric Tons of CO <sub>2</sub> e	FY 2020	FY 2021	Percent YOY Change
<b>Scope 1<sup>1</sup></b>	1,933	1,810	-6%
<b>Scope 2<sup>2</sup></b>	342	439	28%
<b>Scope 3<sup>3</sup></b>	33,823	36,338	7%
<b>Total Combined Emissions</b>	<b>36,098</b>	<b>38,587</b>	<b>7%</b>

Emissions Intensity <sup>4</sup> (MT of CO <sub>2</sub> e / \$M Revenue)	FY 2020	FY 2021	Percent YOY Change
<b>Scope 1</b>	21.0	17.4	-17%
<b>Scope 2</b>	3.7	4.2	14%
<b>Scope 3</b>	367.2	349.7	-5%
<b>Total Combined Emissions Intensity</b>	<b>391.9</b>	<b>371.4</b>	<b>-5%</b>

<sup>1</sup>Scope 1 emissions are direct emissions calculated using the operational-control method aligned with the GHG Protocol across our San Leandro, CA; Tracy, CA; and Katy, TX sites.

<sup>2</sup>Scope 2 emissions are indirect emissions produced from purchased energy calculated using the operational-control method aligned with the GHG Protocol across our San Leandro, CA; Tracy, CA; and Katy, TX sites. The Tracy facility was opened during the latter half of FY 2020, and production increased by 40% in 2021 to support higher sales, driving scope 2 increases.

<sup>3</sup>Scope 3 emissions are indirect emissions across the value chain not captured in scope 1 and 2 and calculated leveraging our third-party advisor's proprietary model, which aligns with the guidance of the GHG Protocol and relies on recent EPA emissions factors and trusted third-party data to determine indirect and induced greenhouse gas emissions. Our reported scope 3 emissions do not include the following categories: 3.10 – Processing of sold products; 3.11 – Use of sold products; 3.12 – End-of-life treatment of sold products; 3.13 – Downstream leased assets; 3.14 – Franchises; 3.15 – Investments. Note, 3.10, 3.11, 3.12 all require customer data to which Energy Recovery does not have access, while our business model and operations deem categories 3.13, 3.14, and 3.15 inapplicable. Our reported scope 3 emissions input categories reflect our U.S.-based operations and global business travel.

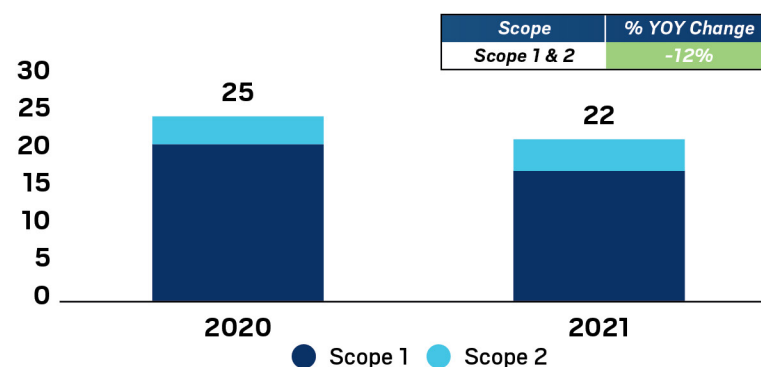
<sup>4</sup>Calculated as Metric Tons of CO<sub>2</sub>e divided by FY product revenue (\$M).

Aligned with our mission to provide energy recovery solutions to our customers, we continue to assess and implement our own emission reduction activities as outlined further in the latter part of this ESG Report section.

### Scope 1 and 2 Greenhouse Gas Emissions Insights

Corporate ESG initiatives, such as solar installations in our Katy, TX facility, continue to have a positive impact on our emissions footprint as we pursue our growth plans. We have also arranged for 100% renewable electricity purchase in 2022 indicative of our commitment to sustainable operations and implementing reduction strategies.

#### Scope 1 & 2 Emissions Intensity



### Scope 3 Greenhouse Gas Emissions Insights

Because companies have changing operational and business needs due to variables such as business travel or purchased goods and services, our absolute scope 3 emissions may vary year-over-year. Ultimately, as demonstrated by our scope 1 and 2 year-over-year decrease, we are continuously assessing and implementing emissions reduction initiatives and will continue to evaluate future reduction pathways.

Additionally, Energy Recovery's mission to provide consumption reduction solutions to our customers, along with our goal to double emissions reductions from Energy Recovery products, demonstrates our ability and commitment to provide GHG emission reductions across the value chain.

## Reducing Our Impact

### **Renewable Electricity**

After installing solar panels at our facility in Katy, TX in the summer of 2020, the impact was immediately noticeable. What started with an employee suggestion to cover the parking lot and protect cars from the brutal Texas heat has turned into a reliable and renewable source of electricity for our Katy facility. In 2021, the solar carport generated 112 MWh of electricity – over 25% of the facility's total electricity consumption.

This move prompted us to look for additional ways to reduce the impact of our energy usage, and we are proud to say that excluding our kilns, which are powered by natural gas, all three of our facilities (San Leandro, CA; Tracy, CA; and Katy, TX) now run on 100% renewable electricity sources as of June 2022.

East Bay Community Energy, a public power agency that provides clean energy to the eastern San Francisco Bay Area, facilitated the transition at our San Leandro and Tracy facilities, which now receive electricity generated fully by wind and solar power. In addition to the power generated by our solar panels, the Katy facility has also transitioned to 100% renewable electricity purchased through Constellation, the largest producer of carbon-free energy in the U.S.



### **Closing the Loop – Reclaiming Water and Waste**

Given our continued presence within the water desalination and industrial wastewater treatment markets, water management and resource protection are especially important to our company. We are currently retrofitting two of our production test loops to fully reclaim and recycle water in our San Leandro facility. This work is on track to be completed in 2022 and will save an estimated 20,000 gallons per year, avoiding unnecessary water consumption from California's arid landscape. This work builds off of successful retrofits that we previously completed of our research and development test loops, as mentioned in our [2020 ESG Report](#).

We are also implementing a closed-loop system to reduce coolant waste in our wet grind machines. After our ceramic rotors are fired in the kiln, they are further refined in the wet grind machines. These machines use coolant to lubricate and control temperature during machining, and we have now attached centrifuges to the grinder machines in order to capture used coolant and remove any ceramic particles. This allows us to reuse coolant until it eventually evaporates, reducing our coolant consumption by approximately 20-fold and avoiding costly disposal. We currently have several centrifuges in use in our San Leandro and Tracy facilities and aim to have a centrifuge for each wet grind machine by the end of 2022.

### **Encouraging Reuse**

As part of our full return to the office in April 2022, we provided each employee with a reusable water bottle from Ocean Bottle, an organization that funds the collection of plastic trash, preventing it from polluting the ocean. Our purchase funded the collection of nearly 11,500 kilograms of ocean bound plastic, which is equivalent to over one million single use bottles.

We estimate that by discouraging our employees from using single use cups in the office, this will also prevent close to 420 kilograms of trash from being created each year, or over 35,000 cups.





# Products and Value Chain

## Introduction

With over 30,000 PX<sup>®</sup> Pressure Exchanger<sup>®</sup> devices installed in over 100 countries, the PX is the most field-tested and trusted product in its category, which makes Energy Recovery the market leader in energy recovery devices (ERDs) for desalination. As we expand our product offerings into new markets and continue to advance our core pressure exchanger technology, we are committed to maintaining our strong track record of quality and reliability.

To hold ourselves accountable, we have established clear and strict targets for our warranty expenses and monetary losses related to product incident legal proceedings, and in the spirit of transparency, we will continue to publish this data in our annual ESG reports.

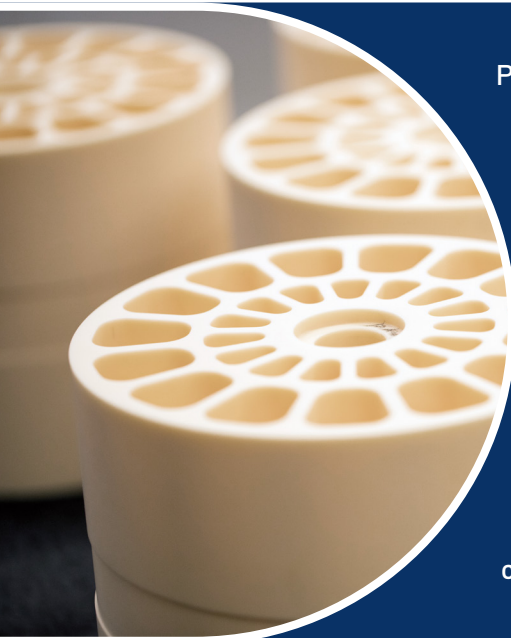
Our two latest additions to the PX lineup drive efficiency for sustainability-focused industrial and commercial processes in two markets that directly impact the environment and quality of life issues. The Ultra PX<sup>™</sup> makes membrane-based industrial wastewater treatment processes more energy efficient, reducing emissions of a process that can drastically reduce water pollution and consumption. The PX G1300<sup>™</sup> makes climate-friendly CO<sub>2</sub>-based refrigeration systems more energy efficient and thereby cost effective, accelerating the move away from systems that use and emit hydrofluorocarbons (HFCs), a potent greenhouse gas.

# Goal: Deliver Market-Leading Solutions Customers Trust



## Products

KPI	2020 (baseline)	2021	Target
<b>Warranty expenses as a percentage of product revenue</b>	Less than 0.1%	Less than 0.1%	Maintain below 1%
<b>Monetary losses associated with legal proceedings due to product health and safety incidents</b>	Zero	Zero	Maintain at zero



Performance, quality, and reliability have long been synonymous with our PX, which has helped to establish the PX as the desalination industry’s leading ERD. We vigilantly seek to maintain and improve the standards of our existing product lines based on industry requirements, customer feedback, and changing environmental factors.

With a 25-year design life, the PX outlasts most other components of a desalination system. The rotor is the PX’s only moving part and is made from highly durable aluminum oxide ceramic, which is corrosion-proof and three times more abrasion-resistant than steel. The vessel has only a few metallic components, made from materials that are able to withstand the pressure and salts of the desalination environment.

We aim to maintain this high standard of safety and quality as we expand into new industries, which will inevitably require evaluating and navigating new risk factors. As we have successfully launched new models of the PX for SWRO desalination in the past, and the Ultra PX and PX G1300 are built on our proven and reliable core pressure exchanger technology, we are confident in our ability to manage these risks effectively.

# Product Highlights

## Industrial Wastewater

With growing water scarcity around the world, governments and industries are starting to take stronger action to preserve our existing supply of clean water. China and India, two of the world's main hubs of manufacturing, are tightening restrictions around industrial wastewater treatment and promoting minimal liquid discharge (MLD) and zero liquid discharge (ZLD) requirements. MLD and ZLD standards require facilities to substantially minimize or eliminate the amount of wastewater that is discharged during operations.

While these standards promote responsible water usage and reduce pollution, traditional thermal methods of treating wastewater can be highly energy intensive and expensive. Conversely, membrane technologies now offer an energy and cost-effective option, especially when used in conjunction with our Ultra PX™. The Ultra PX works in much the same way as our PX devices for desalination but is designed to operate at much higher pressures required of ultra high-pressure reverse osmosis (UHPRO) industrial wastewater treatment systems. UHPRO uses membrane technology to remove contaminants from wastewater to a MLD standard, allowing facilities to significantly reduce the amount of thermal desalination needed to reach ZLD. Our standard PX and Turbochargers can also provide energy-saving benefits at lower pressure stages, or where the MLD and ZLD membrane process does not require ultra-high pressure. The pressure exchanger is a versatile device that can be used in a variety of processes and applications.

The United Nations has laid out an ambitious goal to triple the amount of wastewater treatment globally by 2030. MLD and ZLD standards will soon become a common benchmark for manufacturers, and as regulations are increasing, the need for energy-efficient solutions is growing rapidly.

Since the publication of our [2020 ESG Report](#), we have received several contracts for our Ultra PX and other ERDs, including installations at a lithium carbonate facility, lithium-ion battery facility, and a textile wastewater treatment facility. Sectors such as automotive and electric vehicles, pulp and paper, and semiconductors are just a few examples of industries that also stand to benefit from adopting UHPRO and other membrane technology to process their wastewater.

In addition to the economic value that the Ultra PX offers to our customers, efficient treatment of wastewater also preserves the existing water supply by reducing both water pollution and industrial water consumption, as treated water can be recycled back into manufacturing processes.





# Employee Spotlight: **Sujan Reddy**

## 2021 Paul M. Cook Innovation Award Winner



- **Senior Mechanical Engineer**
- **7 years at Energy Recovery**

**Sujan Reddy** is the 2021 recipient of the eighth annual Paul M. Cook Innovation Award for his work leading the development of the Ultra PX for industrial wastewater treatment. The award honors new and significant improvements in products or systems and symbolizes the culture of innovation at Energy Recovery. It is the most prestigious annual award bestowed upon an employee. Thanks to Sujan's leadership and engineering diligence, the company produced a new commercial product that tackles the vital issue of industrial wastewater.

### Q&A

#### **How would you describe Energy Recovery's approach to new products/development overall?**

Our development strategy is carefully derived from market research to clearly understand where there is a need, and how we can ultimately solve that problem and commercialize a product. However, our research and development (R&D) team also has freedom to experiment with smaller scale (seed) projects, and these often serve as the spark for future innovation.

#### **Does ESG play a role in developing new products? If so, how?**

Energy Recovery is committed to developing products that reduce energy consumption and improve quality of life. In the case of the Ultra PX, instead of releasing wastewater into tributaries, companies have the opportunity to clean the water in advance to avoid pollution in a cost-effective manner.

#### **Can you walk us through the development process for the Ultra PX? Were there any hurdles and how did you overcome them?**

The biggest challenge was the aggressive timeline. We started in early 2020 and set an ambitious goal to develop, perfect, and sell an industry-ready product by the end of the year. This was also the year that the pandemic hit, and many people needed to work from home or in shifts. Thankfully, this project was a high priority, and we had the full support of our leadership to ensure it was a success.

#### **How did it feel to be nominated and win the Paul M. Cook Innovation Award?**

I felt honored to win because the decision came from employees across the company who recognize the value that the Ultra PX has brought to the company. The Ultra PX represents innovation and profitability, but also underscores the company's mission to support environmental sustainability.

# Customer Spotlight: Sinochem Membrane Technology

*Ultra PX and PX help create closed water system at a lithium-ion battery facility in China*

Our first Ultra PX was commissioned in early 2022 at a lithium-ion battery facility in China with three reverse osmosis stages used to treat its wastewater. Thanks to the plant's UHPRO and thermal system, the Sinochem Membrane Technology plant has achieved ZLD, meaning that there is no wastewater being discharged from the facility at all.

The wastewater goes through three reverse osmosis stages, with our PX recapturing pressure energy in the second stage, and the Ultra PX employed at the third, UHPRO stage before the remaining water enters a thermal process.





# Customer Spotlight: Sinochem Membrane Technology

## Measured Energy Savings across Stages in Lithium-ion Battery Facility\*

Energy savings in 2 <sup>nd</sup> stage, with PX	43.8%
Energy savings in ultra high-pressure stage, with Ultra PX	60.2%
Return on investment from reduced operational expenses	Less than one year

By utilizing a UHPRO system with the Ultra PX and PX, the facility is saving both operating and capital expenses, as they were able to reduce the investment in their thermal system. Additionally, the treated freshwater is circulated back into the battery production facility, creating a closed water system and significantly reducing its water consumption and the associated costs.

**“By integrating the PX and Ultra PX into our high-pressure and ultra high-pressure concentration process sections, energy consumption across the entire wastewater treatment system is reduced by 4-5% (and 51% in the high-pressure and ultra-high pressure concentration process alone), making the membrane concentration system more affordable and energy-efficient. This also significantly reduces the amount of water sent to the evaporation crystallization system, thereby largely reducing the investment and operation expenses of the evaporation crystallization system.”**

– Mr. Liu GenTing, VP, Technical, Sinochem Membrane Technology

## CO<sub>2</sub> Refrigeration

CO<sub>2</sub> offers a climate-friendly alternative to many commercial and industrial practices that previously relied on harmful greenhouse gases. In the case of refrigeration, CO<sub>2</sub> is far less harmful to the environment than hydrofluorocarbons (HFCs), the traditional refrigerant of choice and the world's fastest growing category of greenhouse gases.

Over 120 countries have now signed on to the Kigali Amendment, agreeing to reduce HFC use by 85% by 2036 (or 2047, in developing nations) forcing the refrigeration industry to move to natural refrigerants such as CO<sub>2</sub>. But these systems can be costly, particularly in warmer climates where CO<sub>2</sub> systems can become energy intensive, making it difficult for end users to transition to newer and more efficient technologies.

The PX G1300™ is a breakthrough innovation that aims to significantly reduce the costs of high-pressure CO<sub>2</sub> systems by essentially recycling pressure energy, much like the PX and Ultra PX. The PX G1300 features the same simple design as the PX, with just one moving part that efficiently transfers energy from high-pressure CO<sub>2</sub> to low-pressure flash gas. By recapturing this pressure energy, the PX G1300 reduces energy consumption and the work of the compressor, enabling CO<sub>2</sub> systems to operate efficiently regardless of the ambient temperature.

In recognition of the urgent need to reduce greenhouse gas emissions, Energy Recovery has joined the North American Sustainable Refrigeration Council (NASRC) at the silver level. NASRC is a 501(c)(3) nonprofit that works with the supermarket industry to eliminate barriers to the adoption of natural refrigerants like CO<sub>2</sub>. We are also members of ATMOSphere, a global, independent market accelerator for clean cooling and natural refrigerant solutions. As part of our partnerships with both ATMOSphere and NASRC, we have produced educational materials, thought leadership, and sponsored studies demonstrating both the environmental need and business benefits of natural refrigerants.

Since launching the PX G1300 in 2021, we signed a contract in November 2021 for our first commercial deployment in Indio, CA, and have signed joint development agreements with leading refrigeration rack manufacturers in 2022 to design a PX G1300-centric CO<sub>2</sub> system.



# Customer Spotlight

## A Cost-Efficient CO<sub>2</sub> Refrigeration System in the Desert

Vallarta Supermarkets, a California-based supermarket chain, launched its CO<sub>2</sub> refrigeration pilot program at its store in Indio, CA, in 2020, in response to regulations and the increasing cost to maintain and repair older refrigeration systems. California aims to reduce HFC emissions by 40% by 2030, compared to baseline levels set in 2013, and the use of certain HFCs are already prohibited in the state. While Vallarta Supermarkets has seen good results from its CO<sub>2</sub> system already, the PX G1300™ offers an opportunity to realize even bigger savings.



*“We’re always looking for cost-saving opportunities...By bringing the PX G1300 onboard and installing it at our Indio store, we believe it will help reduce the electricity bill that the current system is generating.”*

– Sandie Nunez, Vallarta Store Development Manager

Nunez says that some of the company’s other refrigeration systems require repairs as often as each quarter, a disruption they have not seen with their CO<sub>2</sub> system. Additionally, since CO<sub>2</sub> has a low global warming potential, it is exempt from time-consuming California Air Resources Board (CARB) reporting regulations. The addition of the PX G1300 is expected to compound this reduction in operating expenses by noticeably reducing the company’s electricity usage.



# Our Place in the Supply Chain

In order to fully evaluate the impact of our products, we have to go beyond our own operations and understand the impact of our supply chain and the entire life cycle of our products. We have employed a third-party resource management firm to evaluate our suppliers and work with them to ensure that they are aware of anti-trafficking regulations, policies, and best practices. As an equipment supplier ourselves, we are also committing to evaluate ourselves using a third-party rating system and build trust with our customers about our own operations. And we aim to provide products that have a positive impact on the communities they are deployed in, and society at large.

## Our Product Impacts



*Combating water scarcity and providing more affordable access to clean water*



*Reducing energy consumption and emissions*



*Contributing to cleaner lithium-ion battery production through industrial wastewater treatment*



*Promoting climate-friendly CO<sub>2</sub> refrigerants, mitigating the negative environmental and health impacts of climate change*



## Our Suppliers

Building on our Conflict Minerals Sourcing Policy, we have also endeavored to evaluate our suppliers on a range of ESG issues. In 2021, we launched a program specifically to prevent trafficking in our supply chain and align our operations with international best practices, including the International Labour Organization's framework, the Organisation for Economic Co-Operation and Development (OECD) guidelines, and specific United Nations Sustainable Development Goals.

In collaboration with a third-party supply chain compliance firm, we polled our top suppliers, accounting for over 70% of our company spend, regarding anti-trafficking regulatory awareness and policies. Additionally, we customized the survey to include questions related to greenhouse gas emissions and diversity. Our questionnaire covered the following topic areas:

- **U.S. Foreign Corrupt Practices Act (1977)**
- **California Transparency in Supply Chains Act (2010)**
- **E.U. Non-Financial Reporting Directive (2014)**
- **U.S. Federal Acquisition Regulation (2015)**
- **U.K. Modern Slavery Act (2015)**
- **U.S. Trade Facilitation and Trade Enforcement Act (2016)**
- **Trans-Pacific Partnership (2016)**
- **Countering America's Adversaries Through Sanctions Act (2017)**

From the end of 2021 and into 2022, we conducted three training webinars to educate our suppliers about ESG principles and anti-trafficking regulations and provide instruction on how to properly gather data and conduct internal investigations with appropriate controls and documentation. Out of 74 suppliers, 42 responses were completed and 5 were in escalation, with 27 suppliers who did not respond.

It is important that we continue to work closely with suppliers to identify any hidden or uncontrollable risks, specifically regarding the potential for human trafficking and slavery in the supply chain.

Moving forward, we will focus on tailoring supplier education efforts according to the survey results, specifically targeting unresponsive and non-compliant suppliers and prioritizing areas that present considerable risk to both our business and society, such as anti-trafficking and slavery, conflict minerals, and human rights policies.

## Self-Evaluation

The importance of evaluating one's supply chain is becoming more and more apparent, and we want to work with our customers to provide them details about our own company and verify that our operations are ethical. As a company that evaluates its own suppliers, we understand that this process can be lengthy and labor intensive. We aim to normalize these evaluations as a standard business practice and build trust up and down the supply chain.

In 2021, we underwent our first evaluation by EcoVadis, the world's biggest provider of business sustainability ratings, and attained Bronze status, placing us in the top 50th percentile across all rated companies. EcoVadis evaluates businesses based on four categories – environment, labor and human rights, ethics, and sustainable procurement – and provides certifications based on the company's percentile rating. Each certification expires after just 12 months, and we are committed to undergoing the evaluation annually to audit ourselves and provide transparency.



# People and Community

## Introduction

We have set ambitious growth targets for Energy Recovery over the next few years, which will mean our workforce will grow both in number and complexity. To remain successful, we must ensure employees stay at the center of our strategy. We are committed to providing our employees with an engaging, fulfilling, and beneficial work experience. As we seek opportunities to improve, we want to be intentional about our talent strategy as we grow. To this end, our employee ESG goals are focused on workforce development, retention, training, and safety to reflect our commitment to continuous improvement.

Part of managing the health of our company means retaining and developing our workforce and empowering our employees to grow as we grow. As the job market evolves, we want to ensure that we are staying competitive as well as maintaining a supportive and positive work environment.

We view the safety and physical wellbeing of our employees as a top priority. As operations expand and we scale production, there will be an inherent increased exposure to safety risks, and we are constantly evaluating opportunities to improve our safety program. We have pursued and received ISO 45001 occupational health and safety certification, and we are working to strengthen our safety program and culture throughout our workforce.

We are also committed to the communities in which we do business as reflected by our corporate giving, volunteerism, and ongoing stakeholder engagement, including with partners who embody our values.



# Goal: Develop Workforce to Deliver Sustainable Growth



## Employees

KPI	2019	2020 (baseline)	2021	Target
<b>Retention rate</b>	93%	94%	91%	Maintain above 90%

We aim to create a positive, supportive work environment for all of our employees and continue to develop a skilled workforce. As we scale our operations, retaining, motivating, and developing our workforce will be critical.

In 2021, we retained 91% of our employees even as over 47 million Americans left their jobs as part of the Great Resignation. We are proud that even during a quickly changing job market, a large majority of our employees choose to stay at Energy Recovery. As part of our goal to develop our workforce, we aim to keep our retention rate above 90% each year.



*“I had a front row seat as the company was growing and I was able to touch a lot of disciplines. When people ask me ‘where did you learn engineering?’ or ‘where did you go to business school?’ I am proud to say ‘the University of Energy Recovery.’”*

– Rodney Clemente, Senior Vice President, Water | 24 years at Energy Recovery



In order to maintain this benchmark, we need to have a deep understanding of the experience of our employees, as well as their goals and values. To this end, we worked with Great Place to Work, a third-party employee experience platform, to survey our employees and measure their satisfaction across areas such as leadership, fairness, and engagement. We are happy to share that after receiving responses from more than 70% of our eligible employees, Energy Recovery scored high enough to be certified as a Great Place to Work, establishing a positive baseline in our first year conducting this survey. We will continue to survey our employees annually in order to assess how well we are doing and determine areas where we can improve.

Just as our company is evolving, the reality of work continues to change rapidly due to COVID-19. In consideration of our employees' concerns, all employees who can conduct their work remotely now have the option to regularly work from home, offering flexibility through a hybrid model.

We are also continuously adapting our in-office benefits to foster team building and improve the employee experience by providing lunch, regular COVID-19 testing on-site, community-building events, fitness classes, and more.

In anticipation of our growth, we initiated a multi-year strategy to develop our management and employees in the leadership and skills we will need to be successful as we scale. In support of this initiative, we are investing resources to build our employee training and development programs. For example, in 2022 we are launching a technology platform that will allow us to scale our training to be in-person, remote, and self-paced. These efforts will provide our workforce the opportunity to grow while also addressing any skill gaps we may identify as an organization.

In addition to developing our workforce, we also aim to foster a healthy pipeline of talent through our summer internship program across several departments. After conducting our internship program remotely in 2020, we have brought our interns back into the office in 2021 and 2022.



***“It’s amazing to be a part of something that created a huge paradigm shift in the industry and now is the standard for desalination. We are entering new markets, and it’s fantastic to be part of something that has an impact around the world.”***

***– Lindsay Reau, Sr. Director of Manufacturing Operations | 26 years at Energy Recovery***





## Valuing Diversity

At Energy Recovery, ingenuity is a core value, and we believe that having diverse voices is key to innovation. We, and by extension our customers, benefit from the innovation that results when people with different experiences, perspectives, and cultures work together. We strive to continuously improve a best-in-class work environment that values individual ideas and contributions. Our [Code of Business Conduct and Ethics](#) codifies these values and our policies against harassment, bullying, and discrimination in the workplace.

Our team represents a broad array of backgrounds, and their experiences make our company a better place to work. However, there is always room for improvement. As such, we are continuously working to develop a more equitable workforce, and we recognize this is essential to maintaining our competitive advantage.



*“Collaborating with different groups and departments to achieve a common goal is one of my favorite parts of working at Energy Recovery... If you discover you are interested in a specific aspect of the company, there’s a lot of opportunity to grow and learn.”*

– Edvin Basic, Director of Manufacturing Operations | 21 years at Energy Recovery





## Spotlight: Women of Energy Recovery



### Patricia Ost

- Director, Office of Project Management and Continuous Improvement
- 3 years at Energy Recovery

Patricia Ost was one of the key employees who revived the Women of Energy Recovery group in 2021.

### Q&A

#### **How did the Women of Energy Recovery group come about?**

In 2019, we had a Women of Energy Recovery group that was more focused on social opportunities. When the pandemic hit, the loose structure of the group made it impossible to maintain. To bring the group back, we needed a clear definition of purpose. A group of wonderful women collaborated to create a charter. We quickly realized that we wanted something more substantive than just social events, but not as codified as a mentorship program. We took our plan to the C-Suite and got enthusiastic backing.

At its crux, the purpose of the group is not about what women or women-identifying employees can do for the company, but fostering a supportive community where we can learn from each other. This was especially crucial after the pandemic, when most were navigating a complex balance between work and home.

#### **What types of events does the group organize?**

One of our first events included an in-person gathering in San Francisco with Lisa Pollina, who joined our Board of Directors in 2021. She spoke about what it means to be a leader and the need to stand out and support each other as leaders in our own right.

#### **What has the response to the group been like?**

The Board is supportive, and the women Board members are particularly enthusiastic. They have championed it from the get-go and have been generous with their experiences and suggestions. Regarding employee engagement, the group has had great traction with online surveys, and participation at events has been excellent.





## Employee Spotlight: Shivani Autar



→ **Project Manager**

→ **4 years at Energy Recovery**

As an undergraduate, Shivani began her early professional career as a Manufacturing Engineer Intern for Energy Recovery. After obtaining her Masters in Industrial and Systems Engineering, she ultimately returned to Energy Recovery with various experiences from other companies. Today, she is a Project Manager supporting water projects.

### Q&A

#### **How did you learn about Energy Recovery?**

Some members of Energy Recovery leadership are alumni from California State University, East Bay. We had a professor in common who organized a tour of the San Leandro facility for one of my classes. I was overwhelmed by the size of the facility, and I found myself in awe of how the team transformed powdered ceramic into an innovation that helps save the planet.

#### **What differentiates your experience at Energy Recovery versus other companies?**

While acquiring my Masters, not every company was amenable to working with my schedule. Energy Recovery supported my education and understood that flexibility was essential. The supportive team I work with is another plus on top of the company's valuable culture and purpose. Energy Recovery's mission of preserving our planet through unique and innovative products drives my personal interest in sustainability. In addition, the company gives back to the community through programs like GlobalGiving and more. I have personally witnessed and applaud Energy Recovery for pushing continuous improvements in their processes, products, and systems.

#### **In terms of career development, do you feel there is an opportunity for advancement?**

The culture at Energy Recovery enables the expansion of one's capabilities, emphasizing the essence of teamwork. The projects we manage provide us with new learning opportunities and set us up for greater capabilities for future roles. It is evident that with such growth, there is room for advancement.

# Goal: Develop Workforce to Deliver Sustainable Growth

KPI	2020 (baseline)	2021	Target
<b>New hire turnover rate</b>	7%*	4%	Maintain below 10%

To ensure that our hiring and onboarding processes work smoothly, we have set a target to maintain our new hire turnover rate below 10% each year. In order to track this accurately, we have updated our methodology. Previously, our methodology captured data on new employees in their first year (and in some cases their first two years). This did not accurately reflect the purpose of this metric, which is to identify areas of improvement in our hiring and onboarding processes. The updated methodology reflects the percentage of new employees who leave Energy Recovery in their first 90 days, excluding interns. By narrowing the timeframe, we are also able to recognize any potential trends quickly and make changes accordingly.

The hiring and onboarding process has changed significantly in the last couple of years, with COVID-19 necessitating remote interviews and training. To this end, we launched a monthly management development series with the goal of better understanding how these changes have affected the candidate experience, covering topics such as virtual interviews, candidate life cycles, and structuring virtual training. In 2022, we plan to continue our leadership development series to focus on leading teams through our growth phase.



## Employees

KPI	2020	2021	Target
<b>Employee ESG training</b>	Target set in 2020	Commissioned ESG training video	All new hires receive sustainability training within three months of hire date by 2022

To underline the importance of ESG in our company’s operations, we aim to train all new hires on sustainability and our ESG program within three months of their hire date by the end of 2022. We have developed and embedded a training video into new hire onboarding that explains what ESG is and the goal of our program. We encourage employees to participate in our program in ways that interest them and actively solicit suggestions.

As we continue to build our ESG program, we have seen an increase in positive interest about ESG and sustainability from job candidates, who express a desire to work at a company that aligns with their personal values. Candidates are also looking for companies that can provide a career path and will invest in them and their wellbeing, and our efforts to provide a supportive and positive work environment are gaining notice. The feedback from both job candidates and current employees indicates the importance of connecting Energy Recovery staff to our ESG program in a tangible way.

# Goal: Provide a Safe and Healthy Work Environment

Creating a safe and healthy work environment is critical to supporting and protecting our employees. With our current growth trajectory and the continuing COVID-19 pandemic, it is ever more important that we build a culture of safety. We are working to develop and implement consistent procedures to identify any risk exposures and address them.

## KPI: ISO 45001 Certification by 2021

Building on our successful ISO 9001 quality management system certification, we committed to implementing the ISO 45001 occupational health and safety standard at all three of our operations facilities and were successfully certified in 2021. While we are proud of the work we have done thus far, we aim to use the ISO framework as a baseline to highlight opportunities for continuous improvement, mitigate new risks, and eliminate potential safety hazards.

Through our Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis, we discovered that our contractors presented a strong opportunity to improve our safety processes. We hired a new Supply Chain Manager who is developing a process to vet all contractors before they come on site, including reviewing their safety records and environmental performance. We also provide the necessary PPE and perform Job Hazard Analyses (JHA) to assess any additional risks.

In order to increase efficiency and tracking around safety procedures and suggestions, we are implementing a digitized system to record safety inspections and potential hazards. Our production staff is required to regularly check that equipment, such as fire extinguishers and eyewash stations, is working properly



## Employees

and follow safety procedures such as pre-checks before using a forklift. We have now digitized these inspections at our Katy facility and are implementing digitization at our California sites. Each safety inspection now has a QR code that operators can scan to pull up inspection forms, quickly perform the inspection, and create a record of our compliance in just a few minutes. In addition to streamlining the process and improving tracking, this digitization has also reduced our paper consumption.

We have also introduced QR codes to encourage employee feedback and allow any employee to quickly report a potential safety hazard. The hazard reporting forms are readily available throughout our offices and production facilities and also enable us to easily keep records of all reported hazards.





## Safety Spotlight: Hazard Reporting



### Kelvin Sharma

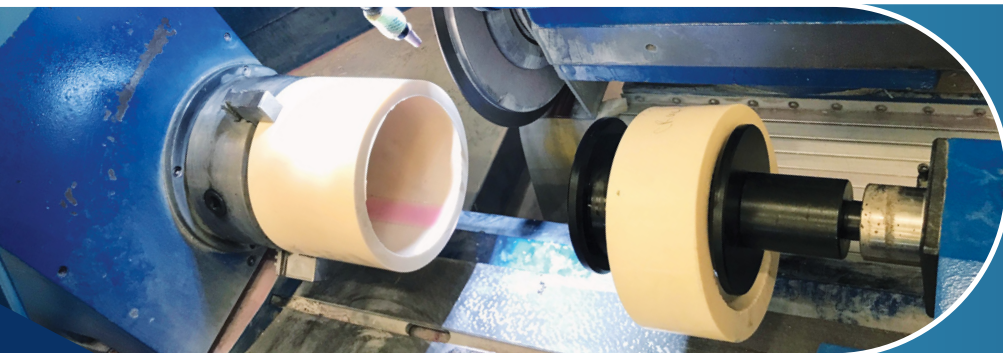
- Machine Operator
- 2 years at Energy Recovery

During a routine safety walkthrough, Machine Operator Kelvin Sharma identified a potential hazard to our Health, Safety, and Environment (HSE) staff. Our technicians use lathe grinders to refine and cut ceramic used in the PX, and Sharma demonstrated that our process exposed technicians to sharp pieces of ceramic while operating the lathe. Our HSE staff recorded and flagged the concern using our new digital hazard reporting forms.

### Vart Avakian

- Senior Manufacturing Engineer
- 3 years at Energy Recovery

Once this issue was brought to light, Sr. Manufacturing Engineer Vart Avakian quickly designed and machined a solution, creating a custom part that could be added to the lathes to allow our technicians to avoid direct exposure to sharp edges. These solutions will be installed on both of our lathe grinders at our San Leandro and Tracy facilities. Kelvin Sharma says the custom part has been a big improvement.



**“The safety of employees is our top priority. Now we use the part on a daily basis to prevent anybody from getting too close to the lathe, and it makes us feel safer.”**

– Kelvin Sharma

## Worker Safety

KPI	2019	2020	2021	Target
<b>Safety Training</b>	Disclosure added in 2020	Implemented tailored, job-specific safety training	Executed tailored, job-specific safety training program as planned. Transitioned to a new safety training management software that allows for efficient tracking towards the 95% target. Quantitative progress will be reported in the 2022 ESG report.	Achieve 95% of planned annual training for each employee group
<b>Total Recordable Incident Rate</b>	7.13	4.03	7.80 (4.16 excluding COVID -19)	Aim towards zero
<b>Near Miss Frequency Rate</b>	Disclosure added in 2020	8.06	13.01	N/A
<b>Fatality Rate</b>	Zero	Zero	Zero	Maintain at zero

The SWOT analysis of our safety procedures also revealed a gap in consistent safety training. In 2020, we instituted a job-specific safety training program that we continue to follow. However, we found that there was an opportunity to make improvements to our system to ensure accurate and thorough data keeping, so we implemented a new software system that will help us better manage our training and track data. Additionally, we have rolled out training for our global field service employees.

We experienced an increase in our total reportable incident rate (TRIR) from 2020 to 2021 due to a spike in COVID-19 cases at the end of 2021. Prior to the national surge of the highly transmissible omicron variant, Energy Recovery had no known cases of communal spread at any of our facilities. After experiencing a rise in cases, we responded by postponing our return to on-site work at the San Leandro headquarters and have continued to provide PPE, COVID-19 testing, at-home tests, and other precautionary measures.

Excluding COVID-19 incidents, our TRIR for 2021 was 4.16, a small increase from 2020. We continue to strengthen our safety procedures with the goal of bringing our TRIR closer to zero.

Additionally, our near miss frequency rate (NMFR) increased from 2020 to 2021. We anticipated that this metric would increase as we encourage employees to report near misses and institute more stringent record keeping. This increase demonstrates that our safety training and ISO 45001 framework are having the intended effect of emphasizing the importance of safety. With TRIR remaining relatively stable in the same time period (excluding COVID-19 incidents), we feel confident that the increase in this statistic signifies an increase in the reporting of near misses and not an increase in incidents.





## Employee Spotlight: Chana Vasquez



→ **Senior Receiving Clerk**

→ **4 years at Energy Recovery**

After a couple of near miss incidents on the production floor involving forklifts, Senior Receiving Clerk Chana Vasquez filed a near miss report outlining the need for improvements to the forklift training program. Her suggestion resulted in the establishment of new training material specific to the type of forklift in use, improving familiarity with the nuances that exist across heavy machinery.

Once this issue was raised, management initiated a new certification program and brought in a third-party instructor to conduct the training sessions. Employees had to participate in a training session and demonstrate proper use of all three forklifts in order to receive their certification. Twenty employees are now forklift certified, and one of our HSE coordinators has been certified to lead future training sessions.





# Community Engagement

We are committed to supporting our employees directly, as well as by supporting the communities in which they live and work. In our [2020 ESG Report](#), we announced the launch of our Social Investment Program and subsequent partnership with GlobalGiving, a nonprofit that connects donors with nonprofit organizations around the world.

We have continued our partnership with GlobalGiving and provide employees with gift cards that they can use to donate on the platform several times a year. While we highlight specific programs that fall under our three Social Investment pillars (water, disaster relief, and education), employees are free to donate to any of the verified nonprofits on the GlobalGiving platform. In 2021, over 60% of employees donated to a program of their choice via the platform, resulting in support for 80 different programs.

With the data we collect through GlobalGiving, we are able to measure the programs that our employees are most passionate about, which helps us to curate the organizations we highlight and better align our values to those of our employees'. In addition to the employee gift cards, Energy Recovery also underwrites all fees and provides a dollar-for-dollar matching program for donations made to our featured nonprofits.

## Top Programs Supported on GlobalGiving

- **Education: Stimulate Change for At-Risk Youth – 26% of donations**
- **Disaster Relief: California Wildfire Relief Fund – 17% of donations**
- **Water: Maia Project – 16% of donations**

In alignment with our disaster relief pillar, we also made a financial contribution to Haiti Earthquake Relief through one of our desalination partners. And in alignment to our water and education pillar, we contributed to the ALADYR Water Olympics for Kids, a program aimed at raising awareness of water importance and management through desalination and other reuse and treatment technologies.

As part of our effort to give back locally, we partner with several organizations to contribute both in-kind and with volunteer time. We provided nearly 4,000 masks to Alameda Health Services in March 2022, where our San Leandro headquarters is located. On Thanksgiving, we partnered with two regional shelters in California to deliver 150 meals and with the organization Target Hunger to deliver 20 meals directly to homes in Texas. We also feature and match donations to local causes such as the California Wildfire Relief Fund on GlobalGiving.

Our efforts to improve the sustainability of our operations have also been featured by the City of San Leandro as an example of local businesses leading the way in sustainability management. As the city has adopted its own ambitious environmental goals, we are proud to be named a local leader for our innovations.





# Leadership and Governance

## Governance Highlights

Energy Recovery is committed to maintaining strong governance practices that represent and protect our stakeholders' interests. We have developed our governance framework to promote transparency and ensure that our Board of Directors has the ability to properly evaluate our operations and make decisions that are in the best interest of stakeholders.

### Anti-Corruption/Anti-Bribery Program

- Policies prohibiting bribes, both governmental and commercial
- Training on anti-corruption policies and procedures
- Due diligence on third-party intermediaries, with continuous monitoring of high-risk third parties
- Strict requirements around gifts, travel, and entertainment of government officials
- Internal auditing of anti-corruption program policies, procedures, and controls
- Annual independent third-party audit of program controls

In March 2022, the Board adopted a new set of [Corporate Governance Guidelines](#) that details director roles and responsibilities, the principles that they follow when carrying out their responsibilities, as well as their management, composition, structures, and policies. The Nominating and Corporate Governance Committee is responsible for periodically reviewing the Corporate Governance Guidelines to ensure that they reflect the best interests of both the company and its stockholders and that they comply with all applicable rules and regulations.

## Corporate Governance Overview



### Director Independence

- 6 of 7 directors are independent (all except the CEO)
- Lead Independent Director with robust responsibilities
- 100% independent Board Committees
- Regular executive sessions of independent directors
- Committees authorized to hire third-party advisors

### Accountability

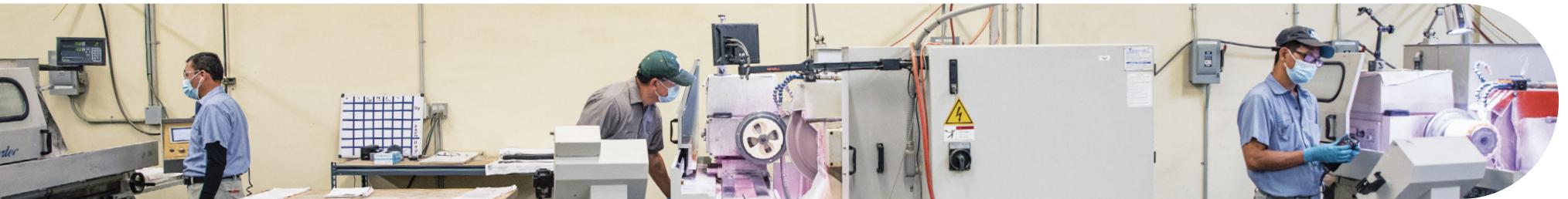
- Annual Board and Committee evaluations
- Stringent clawback policy

### Best Practices

- Focus on diversity
- Active Board oversight of the company's strategy, risk management, and ESG
- Rigorous director and executive stock ownership guidelines
- Prohibition on hedging or pledging company stock
- Moving to declassified Board by 2023 Annual Meeting
- Significant director refreshment

### Stockholder Rights

- Proxy access rights for stockholders
- One class of outstanding shares with search share entitled to one vote



## ESG Oversight

ESG remains a top priority for our Board and is an ongoing agenda item at all full Board meetings, where members review progress on our ESG goals and priorities each quarter. Our Board regularly discusses material ESG issues and the performance of our ESG program; the Audit Committee receives consistent updates on our progress, compliance, and cybersecurity.

Several of our program goals, such as calculating our greenhouse gas emissions and our ongoing effort to align with the Task Force on Climate-related Financial Disclosures (TCFD), are aimed at better monitoring and understanding our own risks and opportunities in order to build transparency and improve governance.

In this spirit, our ESG Management Committee meets quarterly to provide updates and review goal progress and other matters. ESG-related goals also account for 5% of our executive staff's management by objectives (MBOs) for 2021 and 2022, providing staff with a personal stake in the success of our ESG program.

## Board Updates

Our Board elected two new members in 2021, Joan Chow and Lisa Pollina. Ms. Chow has extensive leadership experience in retail and marketing, consumer insights, and human resources matters, and has served as senior leader at some of the world's most recognizable companies. Ms. Pollina is a business executive and Board member who has negotiated over \$50 billion in corporate development deals in financial services, business services, and technology sectors. We continue to celebrate the fresh perspectives and new ideas they bring to our Board.

The Nominating and Corporate Governance Committee seeks to recommend individuals to the Board with, among other things, a diversity of skills, experience, expertise, and perspective appropriate for the business and operation of Energy Recovery. We also recognize the importance of racial and gender diversity in the boardroom, which helps to better reflect our diverse customer and employee base. Our Board is made up of differing geographic and business backgrounds, allowing us to leverage their vast array of perspectives, experiences, and ideas.



*Our Board is composed of **43%** women and **29%** people of color.\**



# Board of Directors Spotlight: Joan Chow

## Energy Recovery Board Committees: Audit, Compensation



**Joan Chow** is one of the new additions to Energy Recovery's Board of Directors, joining in 2021. She brings leadership experience in retail and marketing, consumer insights, and human resources matters from her myriad senior leadership roles at notable companies including ConAgra Foods, Sears Holdings Corporation, Information Resources Inc., Johnson & Johnson Consumer Products, Inc., and the Greater Chicago Food Depository.

### Q&A

#### **What were your major considerations while deciding to join the Energy Recovery Board of Directors?**

For me, it was growth orientation and fit. I believe Energy Recovery's technology has applications across many industries, and I enjoyed meeting all the Board members. I also felt I could add value given my background.

#### **What would you say is the purpose/goal of an ESG program? How do you think an ESG program drives value for a company?**

The goal of an ESG program is to show a company's dedication to making positive social and environmental change. It elevates a company's purpose to do better, and demonstrates that the company believes that doing better will be beneficial to its employees, customers, shareholders, society, and the environment.

#### **Given your experience working at some of the country's leading food retailers, what excites you about Energy Recovery's CO<sub>2</sub> refrigeration product line?**

ConAgra is a large food company with many brands in the frozen aisle of the grocery store. It also had several refrigerated brands when I was there. I'm also on the Board of High Liner Foods, a frozen seafood company that has both retail and food service brands. Retailers' low margins cause them to seek cost reduction opportunities across their stores, and the efficiency in energy use and many retailers' commitment to ESG make our CO<sub>2</sub> refrigeration product line appealing.

#### **How have you seen the sentiment around ESG evolve over time?**

In the last few years, ESG has grown from mostly talk to real commitments. More companies are measuring their ESG efforts and building those metrics in their incentive plans, and that's when you know they are serious.

#### **You've served in leadership positions at some of the world's largest companies. How does their thinking around ESG differ from a small-cap company like Energy Recovery?**

The difference between large and small-cap companies is the "how." Small-cap companies like Energy Recovery can have greater agility and nimbleness – just look at how quickly our ESG efforts and reporting have received accolades compared to much larger companies!



# Board of Directors Spotlight: Arve Hanstveit

## Energy Recovery Board Committees: Audit, Nominating and Corporate Governance (Chair)



**Arve Hanstveit** has been a member of Energy Recovery's Board of Directors and an investor in the company since August 1995. He also served as a member of the Board at Kezzler AS, a privately held Norwegian company that delivers secure track-and-trace solutions to the pharmaceutical and consumer goods industry. His 20 years of experience as a professional investor and analyst includes serving as a partner and vice president at ABG Sundal Collier, Inc., a Scandinavian investment bank.

### Q&A

**Given that you've been on the Energy Recovery Board for almost 27 years, how would you describe the evolution of the company's commitment to ESG?**

In the beginning, ESG as a concept did not really exist as it does today. What really motivated us in the early days was the opportunity to view energy savings as an economic opportunity. A revolutionary idea that if you reduce waste, there is a net business opportunity. This was the guiding principle of the development of the PX. Because of this early idea of making money by doing good, we've built an environmental brand. We haven't had to fundamentally change the way the company operates to comply with ESG principles thanks to the DNA of the company.

**Tell us about when you initially joined the company.**

It was a startup company in the concept design stage. We provided the risk capital for the founder, who was developing the product. When the team came to the conclusion that the only way to build the PX was with ceramic, we were told by various vendors that it was impossible. Our leadership made the bold decision to take the ceramic process in-house, and it was a game changer. When we initially previewed the PX prototype to water companies, the general feedback was that it couldn't possibly work. But it works extremely well – even though it pushes the limits of physics!

**How would you say the investment community has evolved on ESG?**

ESG investing is here to stay. Good governance is an asset. Bad governance is a liability. You might be able to make money in the short term with a badly run company, but not in the long term. Good governance is the only winning investment principle.

**How do you see Energy Recovery with respect to its competitors?**

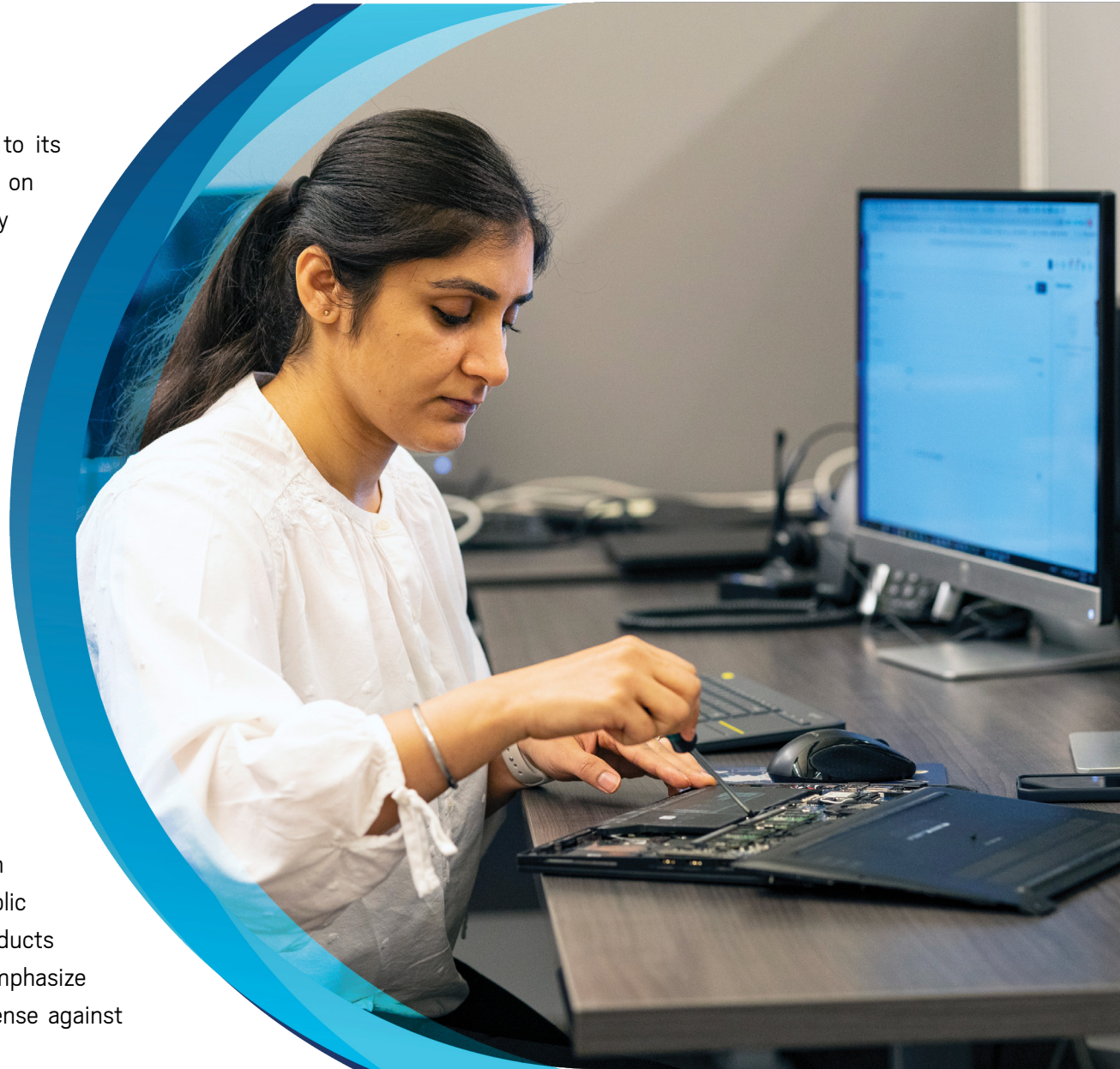
We have become dominant in our market position because of the quality of our products, people, and the way we provide service to our customers. We are best in class. That gives us an edge. As we disrupt new markets, we will be replacing some technologies. We need to be clear and determined that we will always have to offer something better.

# Cybersecurity

In early 2022, the SEC released proposed amendments to its rules that would enhance and standardize disclosures on cybersecurity risks management, and incident reporting by public companies. Under the proposed changes, companies such as Energy Recovery will be required to report and provide updates on cybersecurity incidents, our risk management processes, our Board's oversight of cybersecurity risks, and management, and the Board's expertise and role in cybersecurity matters.

Prior to the proposed changes, our Audit Committee regularly reviews cybersecurity risks and protocols. Additionally, we are forming an interdepartmental cybersecurity committee that will hold regular meetings to review our policies and formalize oversight of our review process. One of the committee's immediate responsibilities will be to standardize our existing risk management process and build a more effective documentation process.

Due to the ongoing geopolitical climate, there has been an upward trend in cybersecurity attacks targeting public companies. To prepare for this risk, our IT team conducts company-wide cybersecurity trainings twice annually to emphasize to our employees their crucial role as the first line of defense against attempted attacks.





# ***Content Index***



## SASB Index

### Industrial Machinery & Goods – Accounting Metrics

Topic	SASB Code	Accounting Metric	Category	Unit of Measure	Response
<b>Energy Management</b>	RT-IG-130a.1	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	(1) 52,065 gigajoules in FY 2021 (2) 33% in FY 2021 (3) 0.78% in FY 2021
<b>Employee Health &amp; Safety</b>	RT-IG-320a.1	(1) Total recordable incident rate (TRIR), (2) fatality rate, and (3) near miss frequency rate (NMFR)	Quantitative	Rate	(1) 7.80 in FY 2021 (2) 0.00 in FY 2021 (3) 13.01 in FY 2021
<b>Fuel Economy &amp; Emissions in Use-phase</b>	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, an accounting metric it believes is highly relevant to its business model.
	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	Avoided electricity consumption from all SWRO (excluding pumps) and Isoboost products sold and shipped: 30.5 TWh/y in FY 2021.
	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	The above metric is calculated as the avoided electricity consumption that can be attributed to Energy Recovery's PX Pressure Exchanger, Isoboost, and Turbocharger energy recovery devices that have been sold, shipped and, to our knowledge, are still in use by customers globally, an amount associated with avoiding approximately 14.5 million metric tons of carbon emissions per year.

Topic	SASB Code	Accounting Metric	Category	Unit of Measure	Response
<b>Materials Sourcing</b>	RT-IG-440a.1	Description of the management of risks associated with the use of critical materials	Discussion and Analysis	n/a	<a href="#">FY 2020 ESG Report</a> > 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 <a href="#">investor website</a> .
<b>Remanufacturing Design &amp; Services</b>	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.

RT-IG-130a.1 - (3) Energy Recovery installed solar panels in Katy, TX 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-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 sales (excluding pumps) 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 PX Pressure Exchangers are in operation. Although it is possible that SWRO ERDs shipped in FY2021 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 FY2021 as the basis for this calculation. As SWRO and Isoboost ERDs constitute the majority of our sales through end of FY2021, pumps are excluded from this calculation. The calculated CO<sub>2</sub> emissions reductions is based on 1.05 lbs CO<sub>2</sub>/kWh emissions factor as published by the International Energy Agency as of 2018, which has been updated in our model. 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 <a href="#">2021 Annual Report</a> .
–	RT-IG-000.B	Number of employees	Quantitative	Number	222 as of Dec. 31, 2021

## Electrical & Electronic Equipment – Accounting Metrics

Topic	SASB Code	Accounting Metric	Category	Unit of Measure	Response
<b>Product Lifecycle Management</b>	RT-EE-410a.3	Revenue from renewable energy-related and energy efficiency-related products	Quantitative	Reporting Currency	\$101.5M in FY 2021 (98% of total FY 2021 product revenue across all business segments)

RT-EE-410a.3 – Includes revenue from products incorporated into systems which recover and reuse otherwise wasted energy.

## 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
<b>102-18</b>	Governance structure	<ul style="list-style-type: none"> <li><a href="#">2022 Proxy Statement</a> pages 8-19</li> <li><a href="#">FY 2020 ESG Report</a> &gt; ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> <li><a href="#">Committee Charters</a></li> <li><a href="#">Board of Directors</a></li> </ul>
<b>102-19</b>	Delegating authority	<ul style="list-style-type: none"> <li><a href="#">FY 2020 ESG Report</a> &gt; ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>
<b>102-20</b>	Executive-level responsibility for economic, environmental, and social topics	<ul style="list-style-type: none"> <li><a href="#">FY 2020 ESG Report</a> &gt; ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>

GRI Indicator	Description	Reference
102-21	Consulting stakeholders on economic, environmental, and social topics	<ul style="list-style-type: none"> <li>• <a href="#">FY2020 ESG Report</a> &gt; Materiality Assessment (pages 12-14)</li> </ul>
102-22	Composition of the highest governance body and its committees	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 20, 24-26</li> <li>• <a href="#">2022 Proxy Revision</a></li> <li>• <a href="#">Committee Charters</a></li> </ul>
102-23	Chair of the highest governance body	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> page 18</li> </ul>
102-24	Nominating and selecting the highest governance body	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 9, 19, 26-28</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; Board Structure and Composition (page 72)</li> <li>• <a href="#">Nominating and Corporate Governance Committee Charter</a></li> <li>• <a href="#">2022 Proxy Revision</a></li> </ul>
102-25	Conflicts of interest	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 29-30, 89</li> </ul>
102-26	Role of highest governance body in setting purpose, values, and strategy	<ul style="list-style-type: none"> <li>• FY 2021 ESG Report &gt; Our Approach to ESG (<a href="#">pages 11-13</a>)</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; Our Approach to ESG (pages 12-25)</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>
102-27	Collective knowledge of highest governance body	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 10-16</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>
102-28	Evaluating the highest governance body's performance	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> page 23</li> </ul>
102-29	Identifying and managing economic, environmental, and social impacts	<ul style="list-style-type: none"> <li>• FY 2021 ESG Report &gt; Our Approach to ESG (<a href="#">pages 11-13</a>)</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; Materiality Assessment (pages 12-14)</li> </ul>
102-30	Effectiveness of risk management processes	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 29-31</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; Systemic Risk Oversight (pages 72-74), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>

GRI Indicator	Description	Reference
102-31	Review of economic, environmental, and social topics	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 32-33</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; Systemic Risk Oversight (pages 72-74), ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>
102-32	Highest governance body's role in sustainability reporting	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 32-33</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; ESG Oversight (pages 76-77), FY 2021 ESG Report &gt; ESG Oversight (<a href="#">page 52</a>)</li> </ul>
102-33	Communicating critical concerns	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 31, 90-91</li> <li>• <a href="#">FY 2020 ESG Report</a> &gt; Ethics and Compliance (pages 65-66)</li> </ul>
102-34	Nature and total number of critical concerns	<ul style="list-style-type: none"> <li>• FY 2021 ESG Report &gt; Governance Performance Table (<a href="#">page 66</a>)</li> </ul>
102-35	Remuneration policies	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 7, 34-35, 40-55</li> </ul>
102-36	Process for determining remuneration	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 34, 40-62</li> </ul>
102-37	Stakeholders' involvement in remuneration	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 42, 40-62</li> <li>• <a href="#">Compensation Committee Charter</a></li> </ul>
102-38	Annual total compensation ratio	<ul style="list-style-type: none"> <li>• <a href="#">2022 Proxy Statement</a> pages 71, 66</li> </ul>
102-39	Percentage increase in annual total compensation ratio	<ul style="list-style-type: none"> <li>• The ratio between the annual total compensation of the Chief Executive Officer and the annual total compensation for the median employee was 19.6:1 in FY 2020. In FY 2021, the ratio was 20.26 to 1. For more information, see our <a href="#">2022 Proxy Statement</a> pages 71 and our <a href="#">2021 Proxy Statement</a>, page 35.</li> </ul>

# Performance Tables



## Environmental Performance Data

MT CO<sub>2</sub>e = Metric Tons of CO<sub>2</sub> equivalent

Metric		Unit	Time Period		
			FY 2019	FY 2020	FY 2021
<b>Operational Impact &amp; Management</b>					
<b>Greenhouse Gas Emissions</b>	<b>Total Scope 1 - 3 Emissions</b>	<b>MT CO<sub>2</sub>e</b>	–	<b>36,098</b>	<b>38,587</b>
	Scope 1 Emissions <sup>1</sup>	MT CO <sub>2</sub> e	–	1,933	1,810
	Scope 2 Emissions <sup>2</sup>	MT CO <sub>2</sub> e	–	342	439
	Scope 3 Emissions <sup>3</sup>	MT CO <sub>2</sub> e	–	33,823	36,338
	Scope 3.01 Purchased Goods and Services	MT CO <sub>2</sub> e	–	16,701	20,556
	Scope 3.02 Capital Goods	MT CO <sub>2</sub> e	–	6,417	6,417
	Scope 3.03 Fuel and Energy-Related Activities	MT CO <sub>2</sub> e	–	1,519	1,873
	Scope 3.04 Upstream Transportation and Logistics	MT CO <sub>2</sub> e	–	1,511	2,321
	Scope 3.05 Waste Services of Operations	MT CO <sub>2</sub> e	–	1,941	418
	Scope 3.06 Business Travel	MT CO <sub>2</sub> e	–	734	877
	Scope 3.07 Employee Commuting	MT CO <sub>2</sub> e	–	446	446
	Scope 3.08 Upstream Leased Assets	MT CO <sub>2</sub> e	–	4,050	3,029
	Scope 3.09 Downstream Transportation and Logistics	MT CO <sub>2</sub> e	–	504	402
	<b>Total Scope 1 - 3 Emissions Intensity<sup>4</sup></b>	<b>MT CO<sub>2</sub>e / \$M Revenue</b>	–	<b>392</b>	<b>371</b>
	Scope 1 Emissions Intensity <sup>4</sup>	MT CO <sub>2</sub> e / \$M Revenue	–	21	17
	Scope 2 Emissions Intensity <sup>4</sup>	MT CO <sub>2</sub> e / \$M Revenue	–	3.7	4.2
Scope 3 Emissions Intensity <sup>4</sup>	MT CO <sub>2</sub> e / \$M Revenue	–	367	350	

## Environmental Performance Data

Metric		Unit	Time Period		
			FY 2019	FY 2020	FY 2021
<b>Operational Impact &amp; Management</b>					
<b>Energy Consumption</b>	Natural Gas - Across All Sites	Gigajoules (Gj)	23,593	28,139	32,654
	Diesel - Across All Sites	Gigajoules (Gj)	9,714	5,485	1,952
	Electricity - Grid Across All Sites	Gigajoules (Gj)	13,127	13,688	17,055
	Electricity - Renewable Across All Sites	Gigajoules (Gj)	0	179	404
	<b>Total Energy Consumption Across All Sites<sup>5</sup></b>	<b>Gigajoules (Gj)</b>	<b>46,435</b>	<b>47,491</b>	<b>52,065</b>
	<b>Total Energy Intensity Across All Sites<sup>6</sup></b>	<b>Gigajoules (Gj) / \$M Revenue</b>	<b>534</b>	<b>516</b>	<b>501</b>
<b>Waste</b>	Reclaimed Alumina Powder Used in PX Production <sup>7</sup>	Percentage (%)	–	39	36
<b>Innovation &amp; Opportunity</b>					
<b>Customer savings from use of Energy Recovery product versus conventional products</b>	Total Emissions Avoided Across All Products Per Year <sup>8</sup>	Million MT CO <sub>2</sub> e	10.4	12.5	14.5
	Year Over Year Total Increase in Emissions Avoided <sup>8</sup>	Percentage (%)	–	20	16
	Customer Cost Savings Per Year <sup>8</sup>	Billion USD	2.2	2.6	3.9

<sup>1</sup>Scope 1 emissions are direct emissions calculated using the operational-control method aligned with the GHG Protocol across our San Leandro, CA; Tracy, CA; and Katy, TX sites.

<sup>2</sup>Scope 2 emissions are indirect emissions produced from purchased energy calculated using the operational-control method aligned with the GHG Protocol across our San Leandro, CA; Tracy, CA; and Katy, TX sites. The Tracy facility was opened during the latter half of FY 2020, and production increased by 40% in 2021 to support higher sales, driving scope 2 increases.

<sup>3</sup>Scope 3 emissions are indirect emissions across the value chain not captured in scope 1 and 2 and calculated leveraging our third-party advisor's proprietary model which aligns with the guidance of the GHG Protocol and relies on recent EPA emissions factors and trusted third-party data to determine indirect and induced greenhouse gas emissions. Our reported scope 3 emissions do not include the following categories: 3.10 – Processing of sold products; 3.11 – Use of sold products; 3.12 – End-of-life treatment of sold products; 3.13 – Downstream leased assets; 3.14 – Franchises; 3.15 – Investments. Note, 3.10, 3.11, 3.12 all require customer data to which Energy Recovery does not have access, while we our business model and operations deem categories 3.13, 3.14, and 3.15 inapplicable. Our reported scope 3 emissions input categories reflect our U.S.-based operations and global business travel.

<sup>4</sup>Calculated as Metric Tons of CO<sub>2</sub>e divided by FY product revenue (\$M).

<sup>5</sup>Calculated as the sum of grid electricity (Gj), diesel (Gj), renewable electricity (Gj), and natural gas (Gj) consumed at our three facilities (San Leandro, CA; Tracy, CA; and Katy, TX).

<sup>6</sup>Calculated as Gigajoules (Gj) divided by FY product revenue (\$M).

<sup>7</sup>Calculated as kilograms of recycled alumina powder used in PX production divided by kilograms of total alumina powder used in PX production. Recycled alumina powder and virgin alumina powder are tracked as separate part numbers in inventory and on as-builts.

<sup>8</sup>Calculated as the avoided electricity consumption that can be attributed to Energy Recovery's PX Pressure Exchanger, Isoboost, and Turbocharger energy recovery devices that have been sold, shipped, and, to our knowledge, still in use by customers globally. The estimate is based on actual sales figures and assumptions about the percentage of our cumulative sales (excluding pumps) 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 FY2021 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 FY2021 as the basis for this calculation. As SWRO and Isoboost ERDs constitute the majority of our sales through end of FY2021, pumps are excluded from this calculation. The calculated CO<sub>2</sub> emissions reductions is based on 1.05 lbs CO<sub>2</sub>/kWh emissions factor as published by the International Energy Agency as of 2018, which has been updated in our model. 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. The calculated customer cost savings is based on the global average power price of \$0.127/kWh as published by Electric Rate in 2022.



## Social Performance Data

Metric		Unit	Time Period		
Employees			FY 2019	FY 2020	FY 2021
<b>Health &amp; Safety</b>	Total Recordable Incident Rate <sup>1</sup>	(Incidents per 200,000 hours worked)	7.13	4.03	7.8
	Near Miss Frequency Rate <sup>2</sup>	(Incidents per 200,000 hours worked)	–	8.06	13.01
	Fatality Rate <sup>3</sup>	(Incidents per 200,000 hours worked)	Zero	Zero	Zero
<b>Recruitment &amp; Retention</b>	Retention Rate <sup>4</sup>	Percentage (%)	93%	94%	91%
	New Hire Turnover Rate <sup>5</sup>	Percentage (%)	–	7%	4%
Products			FY 2019	FY 2020	FY 2021
<b>Quality</b>	Warranty Expenses as a Percentage of Product Revenue	Percentage (%)	–	Less than 0.1%	Less than 0.1%
<b>Safety</b>	Monetary Losses Associated with Legal Proceedings Due to Product Health and Safety Incidents	USD	–	Zero	Zero

<sup>1</sup>Total recordable incident rate is calculated as (number of incidents x 200,000)/(hours worked). Note: Energy Recovery's TRIR was 4.16 excluding COVID-19 incidents for FY 2021. Excludes international employees, temp employees, and contract workers.

<sup>2</sup>Near miss frequency rate is calculated as (number of near misses x 200,000)/(hours worked). Excludes international employees, temp employees, and contract workers.

<sup>3</sup>Fatality rate is calculated as (number of work-related fatalities x 200,000)/(hours worked). Excludes international employees, temp employees, and contract workers.

<sup>4</sup>Retention rate is calculated as the number of voluntary terminations (of both domestic and international employees) divided by the average headcount for the fiscal year.

<sup>5</sup>New hire turnover rate methodology was updated in FY 2021. Our methodology previously captured data on employees who left within their first year, and in FY 2021 we updated this to capture employees who left within their first 90 days to accurately reflect and measure the success of our onboarding processes. Note, the calculation excludes interns and our reported FY 2020 value was adjusted retroactively to account for the methodology change. Includes both voluntary and involuntary terminations of domestic and international employees.

## Governance Performance Data<sup>1</sup>

Metric		Unit	Time Period		
<b>General</b>			<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Company Profile</b>	Annual Product Revenue	Million USD	86.9	92.1	103.9
	Number of Employees	Number	188	216	222
<b>Board Composition</b>			<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021<sup>2</sup></b>
<b>Board Composition</b>	Board of Director Female Representation	Percentage (%)	14%	14%	38%
	Board of Director People of Color Representation	Percentage (%)	14%	17%	25%
	Independent Directors	Percentage (%)	86%	86%	88%
<b>Stakeholder Engagement</b>			<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Stakeholder Engagement</b>	Number of Total Critical Concerns	Number	0	1	0
<b>Executive Compensation</b>			<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Executive Compensation</b>	Annual Total Compensation Ratio	Ratio	20:1	19.6:1	20.26:1

<sup>1</sup>Information is available in current and historical 10-k and proxy filings found on our Investors website.

<sup>2</sup>As of September 2022, our Board of Director Female and People of Color Representation are 43% and 29%, respectively.





*Trusted Solutions for a Sustainable Future*



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