

ENERGY RECOVERY, INC.

FOREIGN CORRUPT PRACTICES ACT OF 1977 POLICY

The Foreign Corrupt Practices Act of 1977 (the "Act") amended the federal securities laws to expand the authority of the federal government to deal with improper business practices and, perhaps more significantly, to create new powers to determine just what constitutes such improper practices.

The Act

The Act, to which Energy Recovery, Inc. (the "Company") and other publicly owned corporations are subject, was enacted to deter illegal corporate payments by: (1) prohibiting certain payments or promises to foreign officials (anti-bribery provisions), (2) requiring corporations to keep adequate records of the disposition of their assets and (3) making corporations responsible for internal monitoring of their accounting practices. In summary, the provisions of the Act in each of these areas are as follows:

Anti-Bribery Provisions

This portion of the Act makes it a criminal offense for an employee (or an officer, director, agent or shareholder of the corporation) to make an offer, payment or gift of any money or other item value, directly or indirectly, to (i) a foreign official, (ii) a foreign political party, (iii) a party official or (iv) a candidate for foreign political office for the "corrupt" purpose of obtaining or retaining business for the Company or for the purpose of directing business to any other person. The term "corrupt" is construed to prohibit any activity, including the provision of meals, lodging or entertainment, which is meant to influence the recipient and which is done for the stated illegal purposes. This highly publicized provision carries with it prosecution of officers, directors, employees or agents resulting in fines of up to \$100,000 or imprisonment of up to five years, or both.

The Act does provide a narrow exception for payments to a foreign official, foreign political party, or party official intended to hasten or secure the performance of a "routine governmental action." Such "routine governmental actions" are those ordinarily performed by a foreign official in:

1. obtaining permits, licenses, or other official documents to qualify a person to do business in a foreign country;
2. processing governmental papers, such as visas and work orders;
3. providing police protection, mail pick-up and delivery, or scheduling inspections associated with contract performance or inspections related to transit of goods across country;
4. providing phone service, power and water supply, loading and unloading cargo, or protecting perishable products or commodities from deterioration; or
5. actions of a similar nature.

In addition, the Act provides two affirmative defenses to charges of violations. First, it is a defense to a charge if the payment or promise was lawful under the written laws and regulations of the country in which the recipient is located. Secondly, "reasonable and bona fide expenditures" made to foreign officials do not violate the Act. For example, the Company may reimburse foreign officials for the

cost of travel and lodging in connection with (i) the promotion, demonstration, or explanation of products or services, or (ii) the execution or performance of a contract with a foreign government.

Record-Keeping Provisions

Pursuant to Exchange Act Section 13(b)(2)(A), the Company is required to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company. The purpose of this requirement is to prevent the occurrence of the following types of abuses:

1. Records that accurately record the existence of a transaction but which fail to reveal the illegal or improper purpose of the transaction.
2. Records that fail to record improper transactions.
3. Records that are falsified to conceal improper transactions which are otherwise correctly recorded.

Internal Accounting Control Provisions

Pursuant to Exchange Act Section 13(b)(2)(B), the Company must devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the following objectives are achieved:

1. Transactions are executed in accordance with management's general and specific authorization.
2. Transactions are recorded in a way which will permit the preparation of proper financial statements and will maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's general and specific authorizations.
4. Audits are conducted at reasonable intervals and appropriate action is taken with respect to any deficiencies in accountability for assets.

The Company

It is the policy of the Company that:

1. The use of Company funds or assets for any unlawful or improper purpose is strictly prohibited. No payment shall be made to, or for the benefit of, government employees for the purpose of, or otherwise in connection with, the securing of sales to or obtaining favorable action by a government agency. Gifts of substantial value to or lavish entertainment of government employees are prohibited since they can be construed as attempts to influence government decisions in matters affecting the Company's operation. Any entertaining of public officials, or the furnishing of assistance in the form of transportation or other services should be of such nature that the official's integrity or reputation will not be compromised.

2. The offer, payment, or promise to transfer in the future Company funds or assets or the delivery of gifts or anything else of value to foreign officials, foreign political parties or officials or candidates of foreign political parties is strictly prohibited for the purpose of influencing any act or decision of any such person in his or her official capacity, including the decision to fail to perform his or her official functions or to use such persons or party's influence with a foreign government or instrumentality in order to affect or to influence any act or decision of such government or instrumentality in order to assist the Company in obtaining or retaining business for or with, or directing business to any person or entity.
3. All records must truly reflect the transactions they record. All assets and liabilities shall be recorded in the regular books of account. No undisclosed or unrecorded fund or asset shall be established for any purpose. No false or artificial entries shall be made in the books and records for any reason. No payment shall be approved or made with the intention or understanding that any part of such payment is to be used for any purpose other than that described by the document supporting the payment.
4. No political contribution shall be made, directly or indirectly, with corporate funds or assets regardless of whether the contributions are legal under the laws of the county in which they are made.
5. Any employee who learns of or suspects a violation of this Policy should promptly report the matter to the General Counsel, Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, as appropriate and/or applicable in the circumstances. All managers shall be responsible for the enforcement of and compliance with this Policy, including the necessary distribution to insure employee knowledge and compliance.