



U.S. Department of Justice

Criminal Division

Washington, D.C. 20530

October 10, 2006

Raymond Banoun, Esq.
Cadwalader, Wickersham & Taft LLP
1201 F Street, N.W.
Washington, D.C. 20004

Re: United States v. SSI INTERNATIONAL FAR EAST. LTD.
Plea Agreement, CR 06-398

Dear Mr. Banoun:

1. **Parties/Scope:** This plea agreement is between the United States Department of Justice, Criminal Division, Fraud Section ("the Department") and defendant, SSI INTERNATIONAL FAR EAST, LTD. ("SSI KOREA"), a wholly owned subsidiary of Schnitzer Steel Industries, Inc. ("Schnitzer Steel"), and thus does not bind any other federal, state, or local prosecuting, administrative, or regulatory authority. This agreement does not apply to any other charges other than those specifically mentioned herein.

2. **Charges:** Defendant SSI KOREA, an organization under 18 U.S.C. § 18, by its authorized agent, Kenneth M. Novack, Chairman, SSI International Far East, Ltd., agrees to waive indictment and plead guilty to an information charging one count each of Conspiracy (18 U.S.C. § 371), violating the Foreign Corrupt Practices Act ("FCPA") (15 U.S.C. § 78dd-3), Wire Fraud (18 U.S.C. § 1343), and aiding and abetting the making of false entries in Schnitzer's books and records (15 U.S.C. § 78m(b)(2) & (5) and 18 U.S.C. § 2).

3. **Factual Basis:** Defendant SSI KOREA is pleading guilty because it is guilty of the charges contained in Counts One through Four of

the Information. Defendant SSI KOREA agrees and stipulates that the factual allegations set forth in the Information are true and correct and accurately reflect its criminal conduct. The parties further stipulate and agree to the Statement of Facts attached hereto and incorporated herein as Exhibit 1.

4. Penalties:

a. The statutory maximum sentence that the Court can impose for a violation of Title 18, United States Code, Section 371 is a fine of \$500,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest, 18 U.S.C. §§ 3571(c)(3) and (d); five years' probation, 18 U.S.C. § 3561(c)(1); and a mandatory special assessment of \$400, 18 U.S.C. § 3013(a)(2)(B).

b. The statutory maximum sentence that the Court can impose for a violation of Title 15, United States Code, Section 78dd-3 is a fine of \$25,000,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest, 15 U.S.C. §§ 78ff(a), 18 U.S.C. § 3571(d); five years' probation, 18 U.S.C. § 3561(c)(1); and a mandatory special assessment of \$400, 18 U.S.C. § 3013(a)(2)(B).

c. The statutory maximum sentence that the Court can impose for a violation of Title 18, United States Code, Section 1343 is a fine of \$500,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest, 18 U.S.C. §§ 3571(c)(3) and (d); five years' probation, 18 U.S.C. § 3561(c)(1); and a mandatory special assessment of \$400, 18 U.S.C. § 3013(a)(2)(B).

d. The statutory maximum sentence that the Court can impose for a violation of Title 15, United States Code, Section 78m(b)(2)&(5) is a fine of \$25,000,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest, 15 U.S.C. §§ 78ff(a), 18 U.S.C. § 3571(d); five years' probation, 18 U.S.C. § 3561(c)(1); and a mandatory special assessment of \$400, 18

U.S.C. § 3013(a)(2)(B).

5. **No Prosecution**: In exchange for SSI KOREA's guilty plea and the complete fulfillment of all its obligations under this Agreement, the Department agrees not to file additional criminal charges against SSI KOREA for any corrupt payments or accounting thereof disclosed to the Department as of the date of this Agreement, but specifically excluding any such conduct not disclosed to the Department as of that date or any conduct occurring after that date. This Agreement will not close or preclude the investigation or prosecution of any natural persons, including any officers, directors, employees, stockholders, agents or consultants of SSI KOREA, its direct or indirect affiliates, subsidiaries, or parent corporations who may have been involved in any of the matters set forth in the Information or in any other matters.

6. **Sentencing Factors**: The parties agree that pursuant to United States v. Booker, 543 U.S. 220 (2005), the Court must determine an advisory sentencing guideline range pursuant to the United States Sentencing Guidelines ("USSG"). The Court will then determine a reasonable sentence within the statutory range after considering the advisory sentencing guideline range and the factors listed in 18 U.S.C. § 3553(a). The parties' agreement herein to any guideline sentencing factors constitutes proof of those factors sufficient to satisfy the applicable burden of proof.

7. **Stipulated Fine and Sentence**: Assuming SSI KOREA accepts responsibility as explained above, the parties will recommend the imposition of a fine in the amount of \$7,500,000 payable to the Clerk of the Court for the United States District Court for the District of Oregon. The parties further agree that this amount

shall be paid as a lump sum within five (5) business days after the imposition of sentencing in this matter. Defendant SSI KOREA further agrees to pay the Clerk of the Court for the United States District Court for the District of Oregon within (5) business days of the time of sentencing the mandatory special assessment.

8. **Basis for Stipulated Fine:** The parties agree that an appropriate disposition of the case is a fine of \$7,500,000 for defendant SSI KOREA based upon the following factors:

a. By entering and fulfilling the obligations under this Agreement, defendant SSI KOREA demonstrates recognition and affirmative acceptance of responsibility for its criminal conduct;

b. The plea underlying this Agreement is a result of the voluntary disclosure of the relevant conduct at the direction of the audit committee of Schnitzer Steel, the parent of SSI KOREA, to the Department beginning in November 2004 and the disclosure of the extensive investigation its attorneys subsequently conducted into the Asian operations of Schnitzer Steel and SSI KOREA;

c. At the time of the initial disclosure, the conduct was unknown to the Department; and

d. By entering into a deferred prosecution agreement with the Department, Schnitzer Steel has, among other things, agreed to implement a compliance and ethics program designed to detect and prevent violations of the FCPA, U.S. commercial bribery laws and all applicable foreign bribery laws throughout its operations, including those of SSI KOREA and all of Schnitzer Steel's subsidiaries and affiliates, and to appoint an independent compliance consultant to monitor the company's compliance program.

9. **Waiver of Presentence Report:** The parties further agree, with the permission of the Court, to waive the requirement for a presentence report pursuant to Federal Rule of Criminal Procedure

32(c)(1)(A), based on a finding by the Court that the record contains information sufficient to enable the Court to meaningfully exercise its sentencing power. However, the parties agree that in the event the Court orders the preparation of a presentence report prior to sentencing, such order will not affect the agreement set forth herein.

10. **Entry of Guilty Plea and Sentencing:** The parties further agree to ask the Court's permission to combine the entry of the plea and sentencing into one hearing. However, the parties agree that in the event the Court orders that the entry of the guilty plea and sentencing hearing occur at separate hearings, such an order will not affect the agreement set forth herein.

11. **Waiver of Appeal/Post-Conviction Relief:** SSI KOREA knowingly, intelligently, and voluntarily waives defendant's right to appeal the conviction in this case. SSI KOREA similarly knowingly, intelligently, and voluntarily waives the right to appeal the sentence imposed by the court, ~~provided the sentence does not exceed the sentence agreed by the parties herein.~~ In addition, SSI KOREA knowingly, intelligently, and voluntarily waives the right to bring a collateral challenge pursuant to 28 U.S.C. § 2255, against either the conviction, or the sentence imposed in this case, except for a claim of ineffective assistance of counsel. SSI KOREA waives all defenses based on the statute of limitations and venue with respect to any prosecution that is not time-barred on the date that this agreement is signed in the event that (a) the conviction is later vacated for any reason, (b) SSI KOREA violates this agreement, or (c) the plea is later withdrawn. The government is free to take any position on appeal or any other post judgment matter.

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12. **Court Not Bound:** The Court is not bound by the recommendations of the parties or of those made in any presentence report. Because this Agreement is made under Rule 11(c)(1)(B) of the Federal Rules of Criminal Procedure, SSI KOREA may not withdraw any guilty plea or rescind this plea agreement if the Court does not follow the agreements or recommendations herein.

13. **Full Disclosure/Reservation of Rights:** In the event the Court directs the preparation of a presentence report, the Department will fully inform the preparer of the presentence report and the Court of the facts and law related to SSI KOREA's case. Except as set forth in this Agreement, the parties reserve all other rights to make sentencing recommendations and to respond to motions and arguments by the opposition.

14. **Breach of Plea Agreement:** If SSI KOREA breaches the terms of this Agreement, or commits any new criminal offenses between signing this Agreement and sentencing, the Department is relieved of its obligations under this Agreement, but SSI KOREA may not withdraw any guilty plea.

13. **Total Agreement:** This letter states the full extent of the agreement between the parties. There are no other promises or agreements, express or implied. If SSI KOREA accepts this offer, please sign and attach the original of this letter to the Petition to Enter Plea.

Very truly yours,

FOR THE DEPARTMENT OF JUSTICE:

Steven A. Tyrrell
Acting Chief, Fraud Section

By: 

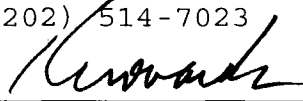
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FOR SCHNITZER:


Kenneth M. Novack
Chairman
SSI International Far East, Ltd.
3200 NW Yeon Avenue
Portland, Oregon 97210

STATEMENT OF FACTS

I. Schnitzer Steel's Status as an "Issuer" Under the Foreign Corrupt Practices Act

1. Schnitzer Steel Industries, Inc. ("Schnitzer Steel") is a publicly traded corporation organized under the laws of Oregon with its headquarters in Portland, Oregon, and offices in Oregon, California and Washington. Schnitzer Steel operates in three vertically integrated business segments: a metals recycling business; an auto parts business; and a steel manufacturing business. Schnitzer Steel maintains a class of securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (15 U.S.C. § 78l) and was required to file reports with the United States Securities and Exchange Commission ("SEC") under Section 13 of the Securities Exchange Act (15 U.S.C. § 78m). Accordingly, Schnitzer Steel is an "issuer" within the meaning of the Foreign Corrupt Practices Act, 15 U.S.C. § 78dd-1.

2. From 1995 to the present, Schnitzer Steel has maintained a wholly-owned subsidiary in Seoul, Republic of Korea ("South Korea"). The subsidiary, SSI International Far East, Ltd. ("SSI Korea"), facilitates the sale of ferrous recycled ("scrap") metal by Schnitzer Steel from the United States and also acts as a broker for the sale of scrap metal by Japanese suppliers to steel producers in the People's Republic of China ("China") and South Korea. SSI Korea maintains its principal office in Seoul. It is managed by SSI International, Inc., a wholly-owned subsidiary of Schnitzer Steel in Tacoma, Washington. SSI Korea acts as Schnitzer Steel's agent in South Korea and China, maintaining the business relationships with Schnitzer Steel's customers in those countries. SSI Korea also transmits

requests to the United States for approval and wire transfer of funds in connection with sales of scrap metal to Schnitzer Steel's customers in South Korea and China, which payments subsequently are processed and approved by employees and officers of Schnitzer Steel in Portland, Oregon. Accordingly, SSI Korea operates within the territorial jurisdiction of the United States, within the meaning of the Foreign Corrupt Practices Act, 15 U.S.C. § 78dd-3.

3. Schnitzer Steel has developed longstanding relationships with steel producers in South Korea and China that have purchased Schnitzer Steel's scrap metal. Some of those steel producers in China, such as Baosteel, are wholly or partially owned by the government of China. Those government-owned customers are foreign government "instrumentalities," and their officers and employees are "foreign officials," within the meaning of the Foreign Corrupt Practices Act, 15 U.S.C. § 78dd-1(f) (1) (A).

II. Overview of Violations

4. From at least 1995, continuing to in or about at least August 2004, Schnitzer Steel through its officers and employees authorized and made corrupt payments, principally in cash, to officers and employees ("managers") of private customers in South Korea and private and government-owned customers in China to induce them to purchase, and to secure an improper advantage with respect to the purchase of, scrap metal from Schnitzer Steel. In total, corrupt payments of approximately \$204,537 were paid to managers of government-owned customers in China, and corrupt payments of approximately \$1,683,672 were paid to managers of private customers in China and South Korea. These

corrupt payments took three basic forms: (1) commissions, (2) refunds, and (3) gratuities.

III. Details of the Violations

A. Commissions

5. From at least 1999 to in or about August 2004, Schnitzer Steel made corrupt payments in connection with nearly every sale of scrap metal to customers in South Korea and China, which payments were falsely reflected on Schnitzer Steel's books and records as "commissions" (hereafter "commissions"). The "commissions" were included in the purchase price of the scrap metal. For scrap metal sold to customers in South Korea, the "commission" was a standard \$0.25 per ton. For scrap metal sold to customers in China, the "commission" was a standard \$0.15 per ton. Schnitzer Steel wired the "commissions" at the request of the head of its Asian scrap metal sales ("Officer A") to off-books bank accounts in South Korea opened and maintained by the manager of SSI Korea ("Employee A"), specifically for receiving these payments. Officer A was a resident of Tacoma, Washington, and was an employee of SSI International, Inc. from in or about 1995 through 2005. From in or about March 2000 to in or about May 2004, Officer A was a senior officer of SSI International, Inc. and was responsible for Schnitzer Steel's Asian scrap metal sales. Officer A's duties included, among other things, negotiating sales of scrap metal with steel production companies in Asia on behalf of Schnitzer Steel; handling invoices from SSI Korea for payment in connection with sales to Schnitzer Steel's customers in Asia; and forwarding to Schnitzer Steel's offices in Portland, Oregon, for processing and authorization wire transfer requests for payment to managers of Schnitzer Steel's scrap metal

customers in China and South Korea. Employee A was a resident of Seoul, South Korea, and was an employee of SSI Korea from in or about 1995 through 2005. From in or about 1998 through 2005, Employee A was the manager of SSI Korea and was responsible for managing the business relationships locally with Schnitzer Steel's scrap metal customers in Asia, managing SSI Korea's Japanese brokered scrap metal sales, coordinating the delivery of scrap metal to steel mills in South Korea and China and forwarding to Officer A in Tacoma, Washington, invoices for payment in connection with sales to Schnitzer Steel's customers in South Korea and China and wire transfer requests for payment to managers of Schnitzer Steel's scrap metal customers in those countries.

6. Officer A and Employee A would use funds from the secret accounts to make cash "commission" payments to the managers of the customers, the funding of which is described below. "Commissions" typically were paid directly to a customer's manager in cash, either at a restaurant or at the customer's office. Between September 1999 and August 2004, at least 131 "commission" payments were made in South Korea and China. Of those, at least 72 "commission" payments were made to managers of their scrap metal customers in China. Those payments totaled approximately \$299,558.10, of which at least approximately \$104,297.03 was paid to managers of foreign government "instrumentalities" within the meaning of the Foreign Corrupt Practices Act, 15 U.S.C. § 78dd-1(f)(1)(A) (hereafter "government instrumentalities"). At least 59 payments totaling approximately \$475,021.15 were made to managers of non-government owned or controlled ("private") customers in South Korea.

7. SSI Korea also acted as a broker for Japanese scrap metal companies that sold scrap metal in South Korea and

China, receiving brokerage commissions for finding buyers for scrap metal in South Korea and China. From at least September 1999 until at least September 2001, Japanese companies provided SSI Korea with funds to make corrupt payments to managers of the South Korean and Chinese steel mills similar to the corrupt payments made by Schnitzer Steel for the scrap metal it sold. Employee A generally delivered these corrupt payments to the managers of the South Korean and Chinese steel mills. Employee A and others delivered at least 135 cash "commission" payments by Japanese scrap metal suppliers to managers of their customers in South Korea and China. These payments totaled approximately \$156,059.50, of which at least \$3,823.35 was paid to managers of steel mills which were government instrumentalities. Records of these "commission" payments were maintained by Schnitzer Steel in the United States until September 2001. All records of "commissions" related to the Japanese brokered sales paid after September 2001 were maintained in South Korea by SSI Korea. In or around August 2004, the records maintained by SSI Korea were intentionally destroyed by an SSI Korea employee, as described below.

B. Refunds

8. Schnitzer Steel made a second type of corrupt payment in connection with sales of scrap metal to South Korean and Chinese customers. Those payments typically were reflected on Schnitzer Steel's books and records as a "refund to customer" or "rebate to customer," although some were characterized variously as "quality claims," "discounts," "credits," and "freight savings" (hereafter "refunds"). In order to pay the refunds, Schnitzer Steel participated in a scheme whereby the customer's manager would cause the customer to overpay Schnitzer

Steel for the scrap metal purchase, and would then personally recover the overpayment from Schnitzer Steel. For sales in which "refunds" were paid, "commissions" typically also were paid, resulting in two or more corrupt payments to the customer's manager.

9. The practice of paying "refunds" appears to have started in mid-2001, due to the volatility in the price of scrap metals, which sometimes resulted in a substantial difference in the price of metal between the time of signing the contract and shipment 60 to 90 days later. When the price in the market at the time of shipment was substantially lower than the contract price, a customer's manager often demanded to be paid a "refund." The "refund" was negotiated at the time the customer entered into a subsequent contract with Schnitzer Steel. The amount of the "refund" was based on the tonnage of the next shipment to the customer.

10. Unlike "commissions," which were a fixed per-ton amount, "refunds" varied from \$0.25 per ton up to \$1.00 per ton. The so-called "refund" was then incorporated in the price of the subsequent scrap metal contract so that the customer, not Schnitzer Steel, bore the cost of the "refund" which was thereafter paid to the customer's manager. "Refunds" were paid in the same way as "commission payments." Schnitzer Steel wired the money for the "refunds" to secret bank accounts in South Korea opened and maintained by Employee A specifically for the purpose of receiving these payments. Officer A and Employee A then used funds from the secret accounts to pay "refunds" to the managers of the customers, the funding of which is described below. "Refunds" typically were paid directly to the customer's manager in cash, either at a restaurant or at the customer's

office.

11. At least 80 "refund" payments were made between May 2001 and August 2004, totaling approximately \$889,372.68. Of those, at least 38 "refund" payments were made to customers' managers in China, totaling approximately \$280,046.47, of which approximately \$57,218.18 was paid to managers of customers which were government instrumentalities. At least 42 "refund" payments totaling approximately \$609,326.21 were made to managers of private customers in South Korea.

12. Three "refund" payments were made or facilitated by Schnitzer Steel in regard to its brokerage of Japanese scrap metal between May and September 2002. The total amount of those payments was approximately \$12,399.00, all of which were paid to managers of private customers. Records related to those three "refunds" were maintained by Schnitzer Steel in the United States; all other records of "refund" payments related to the Japanese brokered sales after September 2001 were maintained by SSI Korea in South Korea. In or around August 2004, the records maintained by SSI Korea related to "refund" payments were destroyed by an SSI Korea employee, as described below.

C. Funding of "Commission" and "Refund" Payments Through Off-Book Bank Accounts in South Korea

13. In 1995, Schnitzer Steel acquired Manufacturing Management Inc. ("MMI") and its South Korean subsidiary, MMI International Far East, Ltd. ("MMI Korea"), which became SSI Korea. Thereafter, Schnitzer Steel adopted MMI's practice of making illegal "commission" payments to managers of customers in cash or bank check from funds held in a series of bank accounts

in South Korea that were not reflected on the books and records of Schnitzer Steel or SSI Korea (the "off-book" bank accounts). Starting around 2001, funds from those bank accounts were also used to pay illegal "refunds."

14. Between 1995 and 1998, the off-book bank accounts were opened and maintained in the names of relatives of "Employee B," a former MMI Korea employee who in 1995 became the manager of SSI Korea. Employee B was a resident of Seoul, South Korea. Between 1995 and 1998, Employee B was responsible for managing the business relationships locally with Schnitzer Steel's scrap metal customers in Asia, managing SSI Korea's Japanese brokered scrap metal sales, coordinating the delivery of scrap metal to the customers of Schnitzer Steel and the Japanese scrap metal suppliers, and forwarding to Tacoma, Washington, invoices for payment in connection with sales to Schnitzer Steel's customers in South Korea and China and wire transfer requests for payment to managers of Schnitzer Steel's scrap metal customers in those countries.

15. Employee B resigned from SSI Korea in 1998. Following his resignation, his former deputy, Employee A, became the manager of SSI Korea. Around that time, Employee C, a former employee of MMI based in Tacoma, Washington, who was Officer A's supervisor and the manager of Schnitzer Steel's Asian scrap metal sales until he retired in or around February 2000, traveled to South Korea and instructed Employee A that he was to continue making "commission" payments on behalf of Schnitzer Steel to managers of its South Korean and Chinese customers. Employee C further instructed Employee A that he should establish bank accounts to be used to facilitate the "commission" payments. Thereafter, Employee A opened bank accounts in South Korea in the

names of his mother and wife. On August 21, 2001, Employee A opened a bank account in the name of a fictitious corporate entity, similar to that of SSI Korea, "SSI International Co., Ltd." Employee A maintained these off-book bank accounts on behalf of SSI Korea from 1998 through sometime in 2004.

16. After a shipment of scrap metal was delivered from Schnitzer Steel to the South Korean or Chinese customer, Employee A sent to Officer A in Tacoma, Washington, an invoice for the "commission" associated with that shipment.

17. After receiving an invoice from Employee A for a "commission," Officer A authorized it and requested a wire transfer be made to one of SSI Korea's off-book bank accounts. The wire transfer request was forwarded from Officer A in Tacoma, Washington, to Schnitzer Steel employees in Portland, who approved and processed it. The request typically identified a bank account number, but not the individual or entity in whose name that bank account was maintained. The request typically identified the payment as a "commission." Each "commission" payment was authorized by one or more Schnitzer Steel executives. Similarly, Officer A made a wire request for each "refund," which was sent from Tacoma, Washington, to Portland, Oregon, for approval and processing. "Officer B," who supervised Officer A, authorized at least 40 "commissions" or "refunds" between September 1999 and October 2003. Officer B was a resident of Portland, Oregon, who was employed as a senior executive officer of Schnitzer Steel, based in Portland, Oregon, from at least 1990 to 2005. Officer B's responsibilities included, among other things, setting policy for the sale of scrap metal to Asian customers, approving all such sales, authorizing wire transfer

requests for payment to managers of customers of Schnitzer Steel, and directly supervising the work of and approving the expenses of Officer A.

18. The funds for the "commissions" and "refunds" were transmitted by Schnitzer Steel in Portland to the off-book bank accounts in South Korea by wire transfers that were reflected in Schnitzer Steel's books and records as "commissions" and "refunds." Between September 1999 and August 2004, at least 121 such wire transfers were made.¹

19. Prior to August 21, 2001, the off-book bank accounts in South Korea were maintained in the names of individuals. The Japanese suppliers for which SSI Korea brokered scrap metal sales refused to transfer funds to those accounts, because the suppliers did not want to send funds to bank accounts in the names of individuals. Instead, the Japanese suppliers transferred funds for both SSI Korea's brokerage commission and the corrupt payments to the managers of the customers to the bank account of SSI Korea. Employee A, however, did not want to make the payments from the SSI Korea bank account, because he did not want to risk disclosure of the payments. Accordingly, Employee A in South Korea and Officer A in Tacoma, Washington, agreed that Schnitzer Steel in Portland would wire transfer funds to the off-book bank accounts in South Korea. These wire transfers were authorized by one or more Schnitzer Steel executives or officers.

20. Between September 1999 and September 2001, there

¹ 7 of the 121 wire transfers to off-book bank accounts paying "commissions" and "refunds" also included payments associated with the Japanese brokered scrap metal sales. See footnote 2 below.

were 25 wire transfers from Schnitzer Steel to off-book bank accounts in South Korea in connection with "commissions" related to Japanese brokered scrap metal sales.² Officer B authorized 4 of those wire transfers. In addition, in 2002, there were 3 wire transfers from Schnitzer Steel to the off-book bank account in the name of the fictitious entity SSI International Co., Ltd. in connection with "refunds" related to Japanese brokered scrap metal sales.

21. After Employee A opened an off-book bank account on August 21, 2001 in the fictitious name SSI International Co., Ltd., the Japanese scrap metal suppliers transferred funds to cover their corrupt payments to managers of their customers directly to that account. The records of all funds received from the Japanese scrap metal suppliers after August 21, 2001, with the exception of the 3 "refund" payments noted above, were maintained solely by SSI Korea. Those records were destroyed in or about August 2004 by an SSI Korea employee, as described below.

D. Gratuities

22. In addition to the "commission" and "refund" payments, Schnitzer Steel, from at least October 1999 to in or about May 2003, made a third type of corrupt payment in connection with certain sales of scrap metal to customers in South Korea and China. The third type of payment was made through checks written to Schnitzer Steel employees or to "cash," which were reflected on Schnitzer Steel's books and records as

² 7 of the 25 wire transfers made in connection with the Japanese brokered scrap metal sales also included payments for "commissions" and "refunds."

"gratuities," "other marine expenses," "commissions," "customer relations," and "bonuses" (hereafter "gratuities").

23. Checks to fund the "gratuities" were written and cashed by Schnitzer Steel employees in the United States at the direction of Schnitzer Steel Officer A in Tacoma, Washington. Some of these checks were written and cashed with the authorization by one or more Schnitzer Steel executives or officers. The cash was delivered in the United States to the manager of the South Korean or Chinese customer at or about the time that a cargo of scrap metal was loaded for shipment.

24. Between October 1999 and April 2003, at least 26 payments of "gratuities" were made in the United States to managers of South Korean and Chinese customers. Of those, at least 18 of the "gratuity" payments were made to managers of Chinese customers. Those payments totaled \$45,198.60, of which at least \$39,198.60 was paid to managers of customers which were government instrumentalities. At least 6 payments totaling \$6,600 were made to managers of private South Korean customers. Two additional payments of "gratuities" totaling \$4,000 were made to managers of customers, the identities of which cannot be determined from Schnitzer Steel's books and records.

E. Other Cash Payments to Officers or Employees of Customers

25. In addition to the payments of "commissions," "refunds," and "gratuities," other cash payments were made by Officer A and Employee A to managers of Schnitzer Steel's customers. Some of the other cash payments ranged in amount from \$2,000 to over \$6,000. Others, characterized in Schnitzer Steel's books and records as "condolence money" and

"congratulations money," typically ranged in amount from \$45 to \$500. The other cash payments made by Officer A were authorized by Officer B.

26. Approximately 25 other cash payments to managers of Schnitzer Steel's customers were made between September 1999 and December 2004, the total amount of which was \$17,243.46, of which \$4,500 was paid to managers of customers which were government instrumentalities.

F. Gifts and Entertainment

27. Both Officer A and Employee A gave gifts to managers of customers. Some of the gifts were given in conjunction with the payments of "commissions" and "refunds," which Officer A and Employee A typically presented privately to the manager in cash or "bank check" wrapped with a gift (e.g., pens, jewelry, perfume). The value of those gifts was generally less than \$350. However, more substantial gifts, ranging in value from \$400 to \$8,000, were also given. The value of the gifts increased substantially in the fall of 2004 after the practice of making corrupt payments to managers of Schnitzer Steel's customers was uncovered and Officer B instructed that no further "commissions" or "refunds" be paid to managers of Schnitzer Steel's customers. For example, Officer A gave a manager of a private customer a \$2,400 Cartier watch in or about September 2004, and Employee A gave a manager of a different

private customer two gift certificates worth approximately \$10,000 in or about November 2004.

28. Between September 1999 and December 2004, gifts with a total value of \$50,392.12 were given to managers of customers by Officer A and Employee A. At least \$3,564.65 of those gifts were given to managers of customers which were government instrumentalities.

29. Officer A and Employee A also entertained managers of customers extensively. This entertainment was provided in South Korea, China and the United States. The entertainment in South Korea included free use of SSI Korea's golf club membership and a condominium time-share which gave SSI Korea the right to accommodations at five resort locations. The expenses attributed to the entertainment of managers of customers between September 1999 and December 31, 2004 totaled \$87,636.75.

30. Officer B authorized the expenses for gifts and entertainment incurred by Officer A.

G. Books and Records Violations

31. Schnitzer Steel failed to properly account for the various types of corrupt payments made and failed to accurately describe the same in its books and records. Instead, Schnitzer Steel improperly characterized the payments it made as legitimate payments for "commissions," "sales commissions," "commissions to the customer," "refunds," "rebates," "refunds to customer," "rebates to customer," "quality claims," "discounts," "credits," "freight savings," "cash," "gratuities," "other marine expenses,"

"customer relations," "bonuses," "condolence money," and "congratulations money," in its books and records.

IV. Knowledge of the Payment Practices by Schnitzer Steel Senior Management

32. Certain members of the senior executive management of Schnitzer Steel, including Officer B, were aware of and either authorized or had knowledge of, within the meaning of the Foreign Corrupt Practices Act, § 78dd-1(f)(2), the giving of corrupt cash payments and gifts, and of providing entertainment to customers' managers in South Korea and China, including managers of government instrumentalities.

V. Revenue Realized by Schnitzer Steel on Scrap Metal Sales for Which Corrupt Payments Were Made to Managers of Customers

33. Schnitzer Steel realized gross revenue of approximately \$602,139,470 and profits of approximately \$54,927,319 on scrap metal sold by Schnitzer Steel to South Korean and Chinese customers between September 1999 and August 2004 with respect to which corrupt payments were paid. From those scrap metal sales to government instrumentalities, Schnitzer Steel realized gross revenue of approximately \$96,396,740 and profits of approximately \$6,259,104.

34. Schnitzer Steel realized gross revenue of approximately \$1,513,097 and profits of approximately \$420,512 on scrap metal sales by Japanese suppliers to South Korean and Chinese customers between September 1999 and August 2004 for which SSI Korea received a brokerage commission, and for which it may be inferred, based on the destruction of records by SSI

Korea, that "commissions" or "refunds" were paid. From those sales, Schnitzer Steel realized gross revenue of approximately \$58,610 and profits of approximately \$19,991 on scrap metal sold to government instrumentalities.

VI. Schnitzer Steel's Lack of Internal Controls

35. Prior to May 2004, and during the period of these transactions, Schnitzer Steel provided no training or education to any of its employees, agents or subsidiaries regarding the requirements of the Foreign Corrupt Practices Act, or the prohibitions on the payments of commercial bribes or "kickbacks." Schnitzer Steel also failed to maintain any program or procedures to monitor its employees, agents and subsidiaries for compliance with the FCPA and commercial bribery laws.

VII. Schnitzer Steel's Investigation and Initial Response

36. In May 2004, when Schnitzer Steel introduced its new compliance and ethics program, Schnitzer Steel's compliance department uncovered the corrupt payments and Schnitzer Steel began to investigate the potential violations of law. At that time, Officer B prohibited any further corrupt payments, but nonetheless authorized Officer A to make at least two additional corrupt payments that Schnitzer Steel previously had promised private customers. In late May or early June 2004, Officer B also authorized Officer A to increase entertainment expenses in lieu of cash payments to Schnitzer Steel's private and government-owned scrap metal customers. In response, Officer A and Employee A gave managers of Schnitzer Steel's scrap metal customers additional gifts, including gift certificates worth \$10,000 and a Cartier watch worth \$2,400, as described above.

VIII. Destruction of Records by SSI Korea

37. After Schnitzer Steel began its internal investigation in late May or early June 2004 but before it had issued a directive to its employees to preserve documents related to the scrap metal transactions, an SSI Korea employee destroyed documents concerning the corrupt payments and off-book bank accounts, at the direction of Employee A, as described below.

38. Around May 2004, the general practice of making corrupt payments to managers of South Korean steel producers that purchased scrap metal became a matter of public notice when South Korean law enforcement authorities conducted raids at the offices of a South Korean steel company and six suppliers of its imported raw materials.

39. Although SSI Korea was not one of the companies whose offices were searched, Employee A was summoned twice for interviews by the South Korean public prosecutor investigating the matter and was questioned regarding any corrupt payments made to the South Korean steel company's managers. In the initial interview, Employee A denied making any such payments. In his second interview, however, Employee A admitted making the corrupt payments, but claimed a much smaller amount than had actually been paid.

40. Shortly after each interview, Employee A and Officer A discussed the interview and its implications. Officer A shared the content of those discussions with Officer B. Employee A later suggested to Officer A that the records of corrupt payments to and from the off-book bank accounts be

destroyed, and Officer A did not disagree. In or about August 2004, Employee A directed a member of the SSI Korea staff to destroy all records pertaining to the off-book bank accounts, which the staff member did. Thereafter, Employee A informed Officer A that the documents had been destroyed.

IX. Schnitzer Steel's Cooperation and Remedial Actions

41. Schnitzer Steel has fully cooperated with the investigation, producing all documents and information requested, including voluntary production of documents protected by the attorney-client privilege and early production and identification to the Department of Justice ("DOJ") of relevant documents. Schnitzer Steel also agreed to make employees available for interviews and encouraged employee cooperation by agreeing to pay travel expenses and attorneys' fees.

42. Schnitzer Steel's Audit Committee and Board of Directors have taken additional remedial actions, including ordering an investigation, the results of which were provided to DOJ and the SEC. Schnitzer Steel has also designed and is implementing a remedial plan, which includes (i) the appointment of a corporate compliance officer who reports to Schnitzer Steel's Audit Committee, (ii) expanded roles for Schnitzer Steel's Audit Committee to oversee compliance with the Foreign Corrupt Practices Act and other applicable bribery laws, (iii) new reporting lines directly to the Audit Committee and Board of Directors, (iv) new ethics and due diligence policies, and (v) enhanced programs for educating and training executives and employees on ethical matters, including Foreign Corrupt Practices Act /anti-bribery compliance training. These and other remedial actions build on other corporate governance changes adopted by

Schnitzer Steel pursuant to the Sarbanes-Oxley Act of 2002.

**SCHNITZER STEEL INDUSTRIES, INC. LIMITED CERTIFICATE OF
CORPORATE RESOLUTIONS**

I, Richard C. Josephson, do hereby certify that I am the duly elected, qualified and acting Secretary of Schnitzer Steel Industries, Inc. ("Schnitzer"), an Oregon corporation, and that the following is a complete and accurate copy of the resolutions adopted by the Board of Directors of Schnitzer at a meeting held on July 26, 2006 at which a quorum was present and resolved as follows:

WHEREAS, by resolutions adopted at its meeting on April 19, 2006, the Board approved in principle a settlement of the investigations by the U.S. Department of Justice ("DOJ") and the United States Securities and Exchange Commission ("Commission") into the Company's past payment practices in the Far East and delegated to the Audit Committee of the Board authority to negotiate the definitive documentation of the settlement, subject to final approval of the Board; and

WHEREAS, the Audit Committee, with the assistance of its counsel and input from management of the Company, has prepared and obtained DOJ approval of a revised code of conduct and compliance program document, which was a condition to approval by DOJ of the settlement; and

WHEREAS, the settlement contemplates (a) the Company executing a deferred prosecution agreement with the DOJ and an offer of settlement to the Commission pursuant to which the Commission would issue a cease and desist order directed to the Company (together, the "Settlement Documents"), (b) the Company paying fines and disgorgement to the DOJ and the Commission in the amount of approximately \$15 million (including prejudgment interest) and (c) SSI International Far East Ltd., a subsidiary of the Company, pleading guilty to certain crimes; now, therefore, be it

RESOLVED, that the Audit Committee, or a subcommittee thereof as designated by the Audit Committee, is authorized and empowered, with the assistance of its counsel and in consultation of management of the Company as it deems appropriate, to negotiate the final forms of the Settlement Documents; and it is further

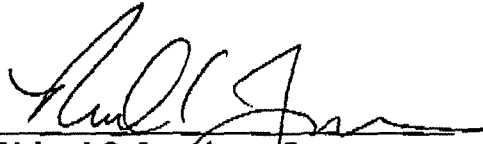
RESOLVED, that the Company is authorized to pay to the DOJ and the Commission penalties, disgorgement and prejudgment interest in the aggregate amount of \$15,225,201; and it is further

RESOLVED, that Kenneth M. Novack, Chairman of the Board, is authorized, for and on behalf of the Company, to execute and deliver the Settlement Documents and such other documents and to take such other and further actions as may be approved by the Audit Committee or

subcommittee thereof, as applicable, to consummate the resolution of the investigation.

I further certify that the aforesaid resolutions have not been amended or revoked in any respect and remains in full force and effect.

IN WITNESS WHEREOF, I have executed this Certificate on September 25, 2006.

By: 
Richard C. Josephson, Secretary
Schnitzer Steel Industries, Inc.