

**Schnitzer Steel Industries, Inc.**  
**Policy on Director Independence**

The Board of Directors has determined that the following relationships shall not be considered to be material relationships that would impair a director's independence:

A. Tax-Exempt Organizations.

The director (or an immediate family member of the director) serves as an officer, director or trustee of a tax exempt organization, and the Company's discretionary charitable contributions to that organization during the Company's preceding fiscal year are less than 1% of that organization's consolidated gross revenues during that organization's preceding fiscal year or \$25,000, whichever is greater. The Company's automatic matching of employee charitable contributions will not be included in the amount of the Company's charitable contributions for this purpose. In addition, the Company's contributions to nonprofit umbrella organizations that themselves support or administer funds for a number of separate, unrelated charities shall be considered outside the scope of this paragraph.

B. Commercial Relationships.

(i) The director or an immediate family member of a director of the Company is an executive officer of another company that does business with the Company and the annual sales to, or purchases from, the Company during the Company's preceding fiscal year are less than 1% of the annual revenues of the other company during the other company's preceding fiscal year.

(ii) The director or an immediate family member of a director of the Company is an executive officer of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other is less than 1% of the total consolidated assets of the company he or she serves as an executive officer.

The existence of a relationship that exceeds the limits set forth above does not create a presumption that such relationship would impair a director's independence. In such a situation, the Board shall consider all the facts and circumstances and may determine that the director (to the extent that any such relationship would not constitute a bar to independence under the Nasdaq rules) is nonetheless independent.

Adopted by the Board of Directors on October 17, 2006.

**Schnitzer Steel Industries, Inc.**  
**Summary of Procedures for the**  
**Determination of Director Independence**  
**October 17, 2006**

**Corporate Governance Guidelines and Policy**

The Company's Corporate Governance Guidelines include the following provisions regarding director independence:

**“Majority of Independent Directors.** The Board will have a majority of directors who are independent.

**Determination of Director Independence.** No director will be deemed independent unless the Board affirmatively determines that the director has no material relationship, either directly or as an officer, shareholder or partner, of an organization that has a material relationship with the Company. The Board will observe all additional criteria for independence established by Nasdaq and other governing laws and regulations. Directors are expected to promptly report any facts or circumstances which could impair their independence to the Chairman of the Board. The Board shall annually review the relationship each director has with the Company and determine independence based on standards adopted by the Board from time to time.”

By Board policy, the Board of Directors has determined that the following relationships shall not be considered to be material relationships that would impair a director's independence:

A. Tax-Exempt Organizations.

The director (or an immediate family member of the director) serves as an officer, director or trustee of a tax exempt organization, and the Company's discretionary charitable contributions to that organization during the Company's preceding fiscal year are less than 1% of that organization's consolidated gross revenues during that organization's preceding fiscal year or \$25,000, whichever is greater. The Company's automatic matching of employee charitable contributions will not be included in the amount of the Company's charitable contributions for this purpose. In addition, the Company's contributions to nonprofit umbrella organizations that themselves support or administer funds for a number of separate, unrelated charities shall be considered outside the scope of this paragraph.

B. Commercial Relationships.

(i) The director or an immediate family member of a director of the Company is an executive officer of another company that does business with the Company and the annual sales to, or purchases from, the Company during the Company's preceding fiscal year are less than 1% of the annual revenues of the other company during the other company's preceding fiscal year.

(ii) The director or an immediate family member of a director of the Company is an executive officer of another company which is indebted to the Company, or to which the Company is indebted, and the total amount of either company's indebtedness to the other is less than 1% of the total consolidated assets of the company he or she serves as an executive officer.

The existence of a relationship that exceeds the limits set forth above does not create a presumption that such relationship would impair a director's independence. In such a situation, the Board shall consider all the facts and circumstances and may determine that the director (to the extent that any such relationship would not constitute a bar to independence under the Nasdaq rules) is nonetheless independent.

**Nasdaq Rules; SEC Rule 10A-3**

Although the Nasdaq rules generally require Nasdaq-listed companies to have a board of directors comprised of a majority of independent directors, a "controlled company" is exempt from this requirement. The Schnitzer family members who are parties to the Schnitzer Trust are a group of shareholders who collectively hold more than 50% of the voting power of the Company and, accordingly, the Company is an exempt controlled company. The Company's Corporate Governance Guidelines provide that the Board of Directors will consist of a majority of independent directors under the Nasdaq standards. As of October 17, 2006, the Company met this requirement.

The Nasdaq definition of "independent director" and related interpretations are attached as Appendix A.

Rule 10A-3 of the Securities and Exchange Commission has additional independence requirements for audit committee members.

**Procedures**

The Board of Directors has adopted the following procedures for determining director independence:

1. Annually the Board of Directors will solicit information from directors regarding relationships with the Company that may affect independence by means of the director and officer questionnaire used in connection with the annual meeting. Directors are also expected to

promptly report to the Chairman of the Board any facts and circumstances which could impair their independence.

2. Annually the Board of Directors will review the relationships each director has with the Company and determine which directors are independent based on the Nasdaq rules and the Company's Corporate Governance Guidelines.

3. Each proxy statement for an annual meeting of shareholders will identify the independent directors.

## Appendix A

# Nasdaq Definition of “Independent Director” and Related Interpretations

### Section 4200(a)(15) and (14):

"Independent director" means a person other than an officer or employee of the company or its subsidiaries or any other individual having a relationship which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgement in carrying out the responsibilities of a director. The following persons shall not be considered independent:

(A) a director who is, or at any time during the past three years was, employed by the company or by any parent or subsidiary of the company;

(B) a director who accepted or who has a Family Member who accepted any payments from the company or any parent or subsidiary of the company in excess of \$60,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:

(i) compensation for board or board committee service;

(ii) payments arising solely from investments in the company's securities;

(iii) compensation paid to a Family Member who is a non-executive employee of the company or a parent or subsidiary of the company;

(iv) benefits under a tax-qualified retirement plan, or non-discretionary compensation;

(v) loans from a financial institution provided that the loans (1) were made in the ordinary course of business, (2) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public, (3) did not involve more than a normal degree of risk or other unfavorable factors, and (4) were not otherwise subject to the specific disclosure requirements of SEC Regulation S-K, Item 404;

(vi) payments from a financial institution in connection with the deposit of funds or the financial institution acting in an agency capacity, provided such payments were (1) made in the ordinary course of business; (2) made on substantially the same terms as those prevailing at the time for comparable transactions with the general public; and (3) not otherwise subject to the disclosure requirements of SEC Regulation S-K, Item 404; or

(vii) loans permitted under Section 13(k) of the Act.

Provided, however, that in addition to the requirements contained in this paragraph (B), audit committee members are also subject to additional, more stringent requirements under [Rule 4350\(d\)](#).

(C) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the company or by any parent or subsidiary of the company as an executive officer;

(D) a director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the company made, or from which the company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:

(i) payments arising solely from investments in the company's securities; or

(ii) payments under non-discretionary charitable contribution matching programs.

(E) a director of the listed company who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the listed company serve on the compensation committee of such other entity; or

(F) a director who is, or has a Family Member who is, a current partner of the company's outside auditor, or was a partner or employee of the company's outside auditor who worked on the company's audit at any time during any of the past three years.

(G) in the case of an investment company, in lieu of paragraphs (A)–(F), a director who is an "interested person" of the company as defined in Section 2(a)(19) of the Investment Company Act of 1940, other than in his or her capacity as a member of the board of directors or any board committee.

"Family Member" means a person's spouse, parents, children and siblings, whether by blood, marriage or adoption, or anyone residing in such person's home.

## IM-4200 Definition of Independence — Rule 4200(a)(15)

It is important for investors to have confidence that individuals serving as independent directors do not have a relationship with the listed company that would impair their independence. The board has a responsibility to make an affirmative determination that no such relationships exist through the application of [Rule 4200](#). [Rule 4200](#) also provides a list of certain relationships that preclude a board finding of independence. These objective measures provide transparency to investors and companies, facilitate uniform application of the rules, and ease administration. Because Nasdaq does not believe that ownership of company stock by itself would preclude a board finding of independence, it is not included in the aforementioned objective factors. It should be noted that there are additional, more stringent requirements that apply to directors serving on audit committees, as specified in [Rule 4350](#).

The Rule's reference to a "parent or subsidiary" is intended to cover entities the issuer controls and consolidates with the issuer's financial statements as filed with the Commission (but not if the issuer reflects such entity solely as an investment in its financial statements). The reference to executive officer means those officers covered in SEC Rule 16a-1(f) under the Act. In the context of the definition of Family Member under [Rule 4200\(a\)\(14\)](#), the reference to marriage is intended to capture relationships specified in the Rule (parents, children and siblings) that arise as a result of marriage, such as "in-law" relationships.

The three year look-back periods referenced in paragraphs (A), (C), (E) and (F) of the Rule commence on the date the relationship ceases. For example, a director employed by the company is not independent until three years after such employment terminates.

Paragraph (B) of the Rule is generally intended to capture situations where a payment is made directly to (or for the benefit of) the director or a Family Member of the director. For example, consulting or personal service contracts with a director or Family Member of the director or political contributions to the campaign of a director or a Family Member of the director would be considered under paragraph (B) of the Rule. Subparagraph (v) clarifies that a loan from a financial institution that was exempt from specific disclosure pursuant to Instruction 3 to SEC Regulation S-K, Item 404(c) will not preclude a finding of director independence. Subparagraph (vi) clarifies that certain payments from financial institutions will not preclude a finding of director independence. In particular, subparagraph (vi) is intended to capture standard, non-preferential payments made by financial institutions in the ordinary course of business such as interest payments made by a bank on deposits, certificates of deposits, or savings bonds.

Furthermore, subparagraph (vi) is intended to capture technical "payments" made by a financial institution to its customers when the financial institution acts as an agent for its customers. For example, when a brokerage firm receives dividends for securities held by a customer, it will make a "payment" of the dividend amount to that customer. Likewise, when a brokerage firm executes a customer's order to sell the customer's securities, it will make a "payment" of the proceeds to the customer. Subparagraph (vi) clarifies that agency payments, such as those described above, shall not preclude a finding of director independence.

Paragraph (D) of the Rule is generally intended to capture payments to an entity with which the director or Family Member of the director is affiliated by serving as a partner, controlling shareholder or executive officer of such entity. Under exceptional circumstances, such as where a director has direct, significant business holdings, it may be appropriate to apply the corporate measurements in paragraph (D), rather than the individual measurements of paragraph (B). Issuers should contact Nasdaq if they wish to apply the Rule in this manner. The reference to a partner in paragraph (D) is not intended to include limited partners. It should be noted that the independence requirements of paragraph (D) of the Rule are broader than SEC Rule 10A-3(e)(8) under the Act.

Under paragraph (D), a director who is, or who has a Family Member who is, an executive officer of a charitable organization may not be considered independent if the company makes payments to the charity in excess of the greater of 5% of the charity's revenues or \$200,000. However, Nasdaq encourages companies to consider other situations where a director or their Family Member and the company each have a relationship with the same charity when assessing director independence.

For purposes of determining whether a lawyer is eligible to serve on an audit committee, SEC Rule 10A-3 under the Act generally provides that any partner in a law firm that receives payments from the issuer is ineligible to serve on that issuer's audit committee. In determining whether a director may be considered independent for purposes other than the audit committee, payments to a law firm would generally be considered under [Rule 4200\(a\)\(15\)\(D\)](#), which looks to whether the payment exceeds the greater of 5% of the recipient's gross revenues or \$200,000; however, if the firm is a sole proprietorship, [Rule 4200\(a\)\(15\)\(B\)](#), which looks to whether the payment exceeds \$60,000, applies.

Paragraph (G) of the Rule provides a different measurement for independence for investment companies in order to harmonize with the Investment Company Act of 1940. In particular, in lieu of paragraphs (A)–(F), a director who is an "interested person" of the company as defined in Section 2(a)(19) of the Investment Company Act of 1940, other than in his or her capacity as a member of the board of directors or any board committee, shall not be considered independent.

Adopted by SEC Release 34-53128 (Jan. 13, 2006).