

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended August 31, 1997

Commission File Number 0-22496

SCHNITZER STEEL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

OREGON

93-0341923

(State of Incorporation)

(I.R.S. Employer Identification No.)

3200 N.W. Yeon Ave., P.O. Box 10047
Portland, OR

97296-0047

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (503) 224-9900

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, \$1 par value

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X].

The aggregate market value and the number of voting shares of the registrant's common stock outstanding on September 30, 1997 was:

Title of Each Class of Common Stock	Shares Outstanding Held By		Market Value Held By Non-Affiliates
	Affiliates	Non-Affiliates	
Class A, \$1 par value	76,100	5,668,726	\$190,610,912
Class B, \$1 par value	4,437,828	0	N/A

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 1998 Annual Meeting of Shareholders are incorporated herein by reference in Part III.

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PART I

ITEM 1. BUSINESS

Overview

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Schnitzer Steel Industries, Inc. (the Company) collects, processes and recycles steel scrap and manufactures finished steel products by operating one of the largest steel scrap recycling businesses in the United States and a technologically advanced steel mini-mill. As a result of its vertically integrated business, the Company is able to transform auto bodies and other scrap into finished steel products. The Company believes that its scrap and steel facilities are cost competitive in its markets.

The Company's Scrap Operations have collection and processing facilities in Portland, Eugene, White City, Grants Pass and Bend, Oregon, Oakland, Sacramento and Fresno, California, Tacoma and Pasco, Washington and Anchorage, Alaska. Additionally, as a result of its acquisition of Proler International Corp., effective November 29, 1996, through joint ventures, the Company participates in the management of an additional 17 scrap collection and processing facilities, including export terminals in Los Angeles, California, Everett, Massachusetts, Providence, Rhode Island and Jersey City, New Jersey. The Company believes that Scrap Operations has a strong competitive position in its markets due to significant economies of scale, low cost scrap processing and loading methods, and deep water terminal facilities which provide efficient and flexible access to foreign steel producers.

The Company's Steel Operations are conducted by Cascade Steel Rolling Mills, Inc., a wholly owned subsidiary acquired in 1984. Steel Operations produces steel reinforcing bar (rebar), coiled rebar, wire rod, merchant bar, fence posts, specialty sections and grape stakes. The Company believes that Steel Operations has a strong competitive position in its market due to its captive source of steel scrap, efficient production processes, state-of-the-art technology, well-located shipping and transportation facilities, and proximity to California and other major western markets.

Acquisition of Proler International Corp.

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On November 29, 1996, PIC Acquisition Corp. (PIC), a wholly owned subsidiary of the Company, acquired approximately 86% of the outstanding shares of Proler International Corp. (Proler) for \$9 cash per share pursuant to a tender offer for all of the outstanding shares of common stock of Proler. Subsequent to November 30, 1996, PIC purchased additional shares, increasing its ownership to approximately 94% of the outstanding shares. On December 6, 1996, the Company completed the merger of PIC with Proler and, as a result, Proler became a wholly owned subsidiary of the Company. As a result of the merger, all remaining outstanding shares of Proler common stock were converted into the right to receive the same \$9 per share in cash paid in the tender offer. The aggregate purchase price for Proler was \$42.5 million.

Through its joint ventures, Proler exports ferrous scrap to foreign markets from scrap collection, processing and deep water facilities in Los Angeles, California, Providence, Rhode Island, Everett, Massachusetts, and Jersey City, New Jersey.

The acquisition of Proler was accounted for as a purchase and Proler's results of operations have been included in the Company's financial statements since November 29, 1996.

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Acquisition of Manufacturing Management, Inc.

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In March 1995, the Company acquired all of the outstanding stock of Manufacturing Management, Inc. (MMI) for \$66 million in cash. MMI's principal operation is a major scrap collection, processing and overseas shipping facility in Tacoma, Washington. MMI is the largest scrap processor in the State of Washington, collecting scrap principally from Seattle and the surrounding area as well as from throughout Washington, Montana, Idaho, Alaska and Western Canada. The Tacoma scrap yard is a 25 acre facility with a deep water shipping terminal for loading scrap shipments to Asian customers, two auto shredders, and other scrap processing equipment. With the addition of the Tacoma scrap facility, the Company increased its annual ferrous scrap volume by 50 percent to approximately 1.5 million long tons.

As part of the MMI acquisition, the Company also acquired MMI's Portland, Oregon based subsidiaries Acme Trading & Supply, Inc. (Acme), a nonferrous scrap operation, and Columbia Forge & Machine Works, Inc., a small specialty forge operation. In July 1995, the Company sold Acme, together with certain of the Company's other Portland-based nonferrous operations, as part of its strategy to focus on its ferrous scrap business.

The acquisition of MMI was accounted for as a purchase and MMI's results of operations have been included in the Company's financial statements since March 17, 1995. Goodwill of \$42.0 million was recorded and is being amortized over 40 years.

Business Strategy

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The Company's business strategy emphasizes continued growth of the ferrous scrap business through additive acquisitions and joint ventures, and maintaining its status as a low-cost producer of both steel scrap and finished steel products through investments in state-of-the-art manufacturing facilities and increased production efficiencies.

The Company considers itself, first and foremost, a ferrous scrap company, with 70% of its operating income, before corporate expenses and eliminations, derived from Scrap Operations in fiscal 1997. Scrap Operations is one of the leading processors in each of the markets in which it operates. Future acquisitions and capital expenditures will focus largely on increasing the Company's position as one of the premier scrap processors in the country. It is the Company's intent to make acquisitions that will be immediately additive to the Company's earnings.

The Company is able to react to changing steel scrap market conditions by adjusting the price it pays for unprocessed scrap. The Company enters into scrap sales contracts by selling forward 45 to 90 days and purchases unprocessed scrap on a daily basis. The typical scrap supplier is a relatively small, local business or manufacturer who sells scrap in limited quantities. The typical supplier generally does not have the ability to inventory material and therefore lacks the market leverage to influence prices. By knowing the price for which the processed material will be sold and the costs involved in processing the scrap, the Company is able to take advantage of this differential in timing between purchases and sales and negotiate prices with suppliers that secure profitable transactions. The Company's strategy is to manage costs so that it can take advantage of rising price environments for processed scrap, and mitigate the potential negative effects of falling prices.

The Company has developed a multi-part strategy which includes the following elements:

Expand Scrap Recycling Operations. The Company will continue to aggressively seek out expansion opportunities for its Scrap Operations within both its existing markets and elsewhere in the United States. The Company has focused on and will continue to emphasize increasing its sources of ferrous scrap through its existing network and through selective acquisitions of or joint ventures with scrap processors and scrap suppliers. In November 1996, the Company acquired Proler, a processor of scrap metal. Proler's scrap metal joint ventures process approximately 2.5 million long tons of ferrous scrap per year. The Company's purchase of MMI, another scrap processor, in March 1995 added approximately 500,000 long tons per year to the Company's ferrous scrap

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volume. In December 1993, the Company acquired four scrap collection and processing facilities in central and southern Oregon. To facilitate increased purchasing of bundled scrap available in its California market area, the Company installed a pre-shredder at its Oakland facility in 1993 to break apart bundles for further processing into a higher-margin, more marketable shredded product. A Fresno, California scrap facility was acquired in 1989 to increase the Company's access to scrap in the central valley of California. The Company has also made a series of investments in other joint ventures which increase the Company's sources of scrap supply. The Company's most significant joint venture, in this regard, operates self-service used auto parts yards, primarily in California. The Company's Oakland facility receives car bodies from this joint venture for processing and sale as shredded scrap metal.

Invest in State-of-the-Art Processing and Manufacturing. The Company's objective is to be a low cost producer of both steel scrap and finished steel products in order to maximize the operating margin for both operations. To meet this objective, the Company has focused on and will continue to emphasize the efficient purchasing and processing of scrap. Additionally, the Company has made significant investments in state-of-the art equipment to ensure that its operations have cost effective technology to produce high quality products and to maximize economies of scale. The Company continues to invest in equipment to improve the efficiency and capabilities of its Scrap Operations. During fiscal years 1992 through 1997, the Company spent \$29.8 million on capital improvements related to Scrap Operations. During this same time, the Company made capital expenditures of \$88.9 million to improve Steel Operations' steelmaking facility and to increase its production capacity. In May 1991, the Company installed a new melt shop comprised of a technologically advanced electric arc furnace and five-strand continuous caster. The installation of new in-line straightening, stacking and bundling equipment at its first rolling mill (Rolling Mill #1) was completed in August 1994. This equipment improves merchant bar product quality, lowers processing costs, and has permitted the Company to expand its higher margin merchant bar product line. The Company also intends to invest in technology to improve its key operating systems over the next two years.

Increase Finished Steel Production and Product Flexibility. In February 1996, a second rolling mill (Rolling Mill #2) was completed, increasing Steel Operations' production capacity by 500,000 tons per year. Additionally, in February 1997, the Company completed the installation of a rod block at Rolling Mill #2. The rod block has allowed the Company to enhance its product mix through the production of coiled rebar and wire rod. In addition, the ability of the new bar mill to produce existing cut-to-length rebar products permits the Company to increase its production of higher-margin merchant bar products at Rolling Mill #1 and also increases the Company's flexibility to adjust its product mix among rebar, merchant bar and wire rod products to respond to relative demand and price conditions among these products and to maximize profits. Rolling Mill #2 is expected to expand the Company's rolling capacity, based on anticipated product mix, to about 700,000 tons annually to more closely match the potential output of the melt shop at full capacity. The Company does not expect to expand Steel Operations, either through significant capital additions or acquisitions of other mini-mills, in the foreseeable future.

Capture Benefits of Integration. The Company has historically sought to capture the potential benefits of business integration whenever possible. The Company believes it enjoys a competitive advantage over non-vertically integrated mini-mill steel producers as a result of its extensive scrap operations. Scrap Operations ensures Steel Operations will receive a predictable, high quality supply of scrap in an optimal mix of scrap grades for efficient melting. In its Steel Operations, the Company's new wire rod and bar mill is expected to upgrade the Company's finished steel production and product mix capturing additional margin.

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Scrap Operations
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The Company is one of the largest scrap processors in the United States, with eleven wholly owned scrap collection and processing facilities. The Company buys, processes and sells ferrous scrap to foreign and other domestic steel producers or their representatives and to Steel Operations. Scrap Operations also purchases ferrous scrap from other scrap processors for shipment directly to Steel Operations without further processing by Scrap Operations.

Due to the large capital investment required for scrap processing equipment and the scarcity of potential scrap yard sites that are properly zoned and have access to waterways and railroads, the scrap metal industry is characterized by a relatively small number of large, regionally dominant scrap processors. These large processors collect raw scrap from a variety of scrap sources, including smaller scrap recyclers and dealers, and then sort, clean and cut it into sizes and grades suitable for use by steel manufacturers.

The Company's Portland, Oakland, and Tacoma scrap operations are located at deep water terminal facilities operated by the Company and have rail and highway access. As a result, the Company believes it is strategically located, both for scrap collection from suppliers and for distribution of processed scrap to West Coast and Asian steel producers. The Company also operates collection and processing facilities in Eugene, Bend, White City and Grants Pass, Oregon, Sacramento and Fresno, California, Pasco, Washington and Anchorage, Alaska. The Sacramento and Fresno facilities are smaller feeder yards which collect and process scrap for transfer to the Oakland facility or to Steel Operations. The Eugene, White City, Grants Pass, Bend, Pasco and Anchorage facilities are similar feeder yards, but their production is transferred to the Portland facility or to Steel Operations.

Customers and Marketing. The following table sets forth information about the amount of ferrous scrap sold by the Company's Scrap Operations to certain groups of customers during the last five fiscal years:

=====										
Year Ended August 31,										
1997		1996		1995		1994		1993		
Sales	Vol.(1)	Sales	Vol.(1)	Sales	Vol.(1)	Sales	Vol.(1)	Sales	Vol.(1)	

Ferrous Scrap										
Customers:										
(dollar amounts in millions)										

Asian Steel										
Producers and										
Representatives	\$111.1	853	\$131.8	858	\$125.9	680	\$75.9	461	\$62.3	436

Steel Operations:										
Supplied by										
Company Scrap										
Facilities	43.7	362	44.1	358	44.3	338	36.8	304	25.1	223
Purchased from										
Others for Direct										
Shipment(2)	14.1	132	9.9	92	10.4	91	17.5	139	23.4	233

Total										
Steel Operations	57.8	494	54.0	450	54.7	429	54.3	443	48.5	456

Other US Steel										
Producers	39.9	171	30.1	171	25.2	145	16.1	87	9.7	61

Total	\$208.8	1,518	\$215.9	1,479	\$205.8	1,254	\$146.3	991	\$120.5	953
=====										

(1) In thousands of long tons (2,240 pounds).

(2) Consists of prepared scrap that is not processed by Scrap Operations.

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The Company sells scrap to foreign and other domestic steel producers or their representatives and to Steel Operations. The Company has developed long-standing relationships with Asian and U.S. steel producers. Asian scrap customers are located principally in China, India, Japan, Korea and Taiwan. To serve these customers more effectively, the Company operates a wholly-owned subsidiary, SSI International Far East Ltd., in Seoul, South Korea. Additionally, the Company uses offices in Tokyo, Japan and Busan, South Korea. The Company believes these offices not only enhance the Company's service to its Asian customers, but also provide a valuable local presence and source of information in these markets. In fiscal 1997, one customer accounted for approximately 11% and Scrap Operations' five largest customers accounted for 39% of scrap sales to unaffiliated customers. However, the Company's scrap customers vary from year to year due to demand, relative currency values and other factors. All scrap sales are denominated in U.S. dollars and substantially all scrap shipments to foreign customers are supported by letters of credit.

While ferrous scrap prices have on average increased historically, such prices are subject to market cycles. Prices for foreign scrap shipments are generally established through a competitive bidding process. The Company generally negotiates domestic prices based on export price levels. Foreign scrap sales contracts typically provide for shipment 45 to 90 days after the price, which, in most cases, includes freight, is determined. The Company attempts to respond to changing export price levels by adjusting its purchase prices at its scrap yards to maintain its operating margin dollars per ton. However, the Company's ability to fully maintain its operating margin per ton through periods of falling prices can be limited by the impact of lower purchase prices on the volume of scrap flowing to the Company from marginal scrap sellers. Accordingly, the Company believes it benefits from rising scrap prices which provide the Company greater flexibility to maintain both margins and scrap flow into its scrap yards.

Sources of Scrap. The most common forms of raw scrap purchased by the Company are wrecked automobiles, railroad cars, railroad tracks, machinery, and demolition scrap from buildings and other obsolete structures. Scrap is acquired from drive-in sellers at posted prices at the Company's eleven scrap yards, from drop boxes at over 1,000 industrial sites and through negotiated purchases from railroads and other large suppliers. The Company purchases scrap from a large number of suppliers, including railroads, industrial manufacturers, automobile salvage yards, scrap dealers and individuals. Because of the significance of freight charges relative to the value of scrap, scrap yards situated nearest to scrap sellers and major transportation routes have a competitive advantage. The Company's Portland yard benefits from northwestern rail, highway and water transportation routes allowing it to attract sellers from Oregon, Washington, Idaho, Montana, Utah, Nevada and Northern California. The Eugene, Grants Pass, White City and Bend yards are smaller facilities that serve as collection points from central and southern Oregon. The Oakland yard gives the Company sourcing capability in the San Francisco Bay area, the fifth largest metropolitan region in the country. The Sacramento and Fresno yards are smaller facilities that serve as collection points for scrap from the central valley of California and Western Nevada. The Company's Tacoma yard collects scrap from Seattle and the entire Puget Sound area as well as from throughout Washington, Montana, Idaho, Alaska, and Western Canada. No single supplier accounted for more than 5% of the scrap purchased by the Company during the last fiscal year.

Scrap Processing. The Company processes raw scrap by cleaning, sorting, shearing and shredding it into metal pieces of a size, density and purity required by customers for introduction into their melting furnaces. Smaller, denser pieces of scrap are more valuable because they melt more easily and more completely fill a furnace charge bucket. Over 80% of the ferrous scrap collected by the Company's scrap facilities requires processing before sale.

Six of the Company's eleven scrap facilities operate large capacity guillotine-style shears for cutting large pieces of ferrous scrap into smaller, more valuable pieces. At Portland, Eugene, Tacoma and Oakland, the Company also has large scissor shears mounted on cranes that move about the yards and cut bulky pieces of scrap into sizes that can be further processed by the guillotine shears. These mobile shears are capable of reducing a railroad boxcar to useable scrap in approximately 30 minutes.

The Portland and Oakland facilities each operate a large auto shredder capable of processing up to 1,500 tons of scrap per

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day. The Tacoma facility has two auto shredders with combined capacity to process up to 1,000 tons of scrap per day. These shredders reduce automobile bodies and other light gauge sheet metal into fist-size pieces of shredded scrap. The shredded material is then carried by conveyor under magnetized drums which attract the ferrous scrap and separate it from the nonferrous metals and other material (fluff) found in the shredded material, resulting in a relatively pure and clean shredded steel product. The nonferrous metal and fluff then pass through a rising current separator that removes the fluff. In Oakland, the nonferrous scrap is further processed using a sink float method to separate aluminum from other metals based on the differences in their specific gravities. The remaining nonferrous metals are either hand sorted and graded before being sold or sold unsorted.

A pre-shredder at the Oakland facility is used to break apart compacted bundles of light gauge ferrous scrap purchased from other scrap processors and dealers. The unbundled scrap is further processed through the shredder.

Deep Water Terminal Facilities. The Company delivers by ship processed scrap to Asian steel producers. The Company achieves cost efficiencies by operating deep water terminal facilities at the Portland, Tacoma and Oakland scrap operations. As a result, the Company is generally not subject to berthing delays often experienced by users of unaffiliated terminal facilities. The Portland dock has three operating berths for ships and two tie-up berths, and is equipped with three 60-ton cranes and one 30-ton crane for loading and unloading heavy materials and a bulk loading conveyor capable of loading up to 700 tons of shredded scrap per hour directly into a ship's hold. The Oakland dock also has a berth serviced by a bulk loading conveyor for loading shredded scrap as well as a concrete wharf with a 40-ton container crane. The Tacoma marine terminal is serviced by three 28-ton cranes on two floating docks and one 40-ton crane on a cement dock.

The deep water terminal facilities are used extensively for loading scrap shipments to the Company's foreign customers. The Portland terminal and, to a lesser extent, the Oakland and Tacoma terminals also sell docking, loading and warehousing services to unrelated parties.

Ocean freight costs are a significant element of the cost of scrap delivered to foreign customers. The Company believes it benefits from the experience and market knowledge of the shipping businesses it is affiliated with in arranging ocean transportation. To limit its exposure to fluctuations in ocean shipping rates and to assure the availability of appropriate vessels, in 1993 the Company entered into a five-year time charter of a vessel from Trans-Pacific Shipping Co. (TPS), an affiliated company, and entered into two additional seven-year time charters with TPS in May 1995.

Competition. The Company competes both with respect to the purchase of scrap from scrap sources and the sale of processed scrap to metal producers. Competition for scrap purchased in the Company's markets comes from one large scrap processor, LMC Metals, a division of Simsmetal USA Corporation, headquartered in Richmond, California, one large scrap broker, David J. Joseph Company, which purchases scrap throughout the region for delivery to steel producers, as well as from smaller scrap yards and dealers, and steel producers such as Oregon Steel Mills, Inc. and Birmingham Steel Corporation (Salmon Bay Steel) who buy scrap directly. The predominant competitive factors impacting the Company's scrap sales and its ability to obtain raw scrap are price, including shipping costs, availability, reliability of service and product quality.

The Company competes with a number of U.S. and foreign scrap processors for export sales to the Company's Asian customers. Price, including shipping costs, and availability are the most important competitive factors, but reliability and quality are also important. The Company believes that its size and locations allow it to compete effectively with other U.S. and foreign scrap processors.

Seasonality. The Company makes a number of large ferrous scrap shipments to foreign steel producers each year. The Company's control over timing of scrap shipments is limited by customers' requirements, shipping schedules and other factors. Variations in the number of foreign scrap shipments from quarter to quarter results in fluctuations in quarterly revenues and earnings.

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Backlog. At August 31, 1997, the Company's Scrap Operations had a backlog of firm orders of \$31.2 million, as compared to \$16.7 million at August 31, 1996. All of the backlog at August 31, 1997 is related to export shipments and is expected to be shipped during 1997.

Joint Ventures
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The Company has invested in certain joint ventures which process and sell scrap to third parties and other joint ventures that supply scrap to the Company's operations.

I. Joint Venture Scrap Processors

In November 1996 the Company acquired Proler. Proler owns interests in three joint ventures that are engaged in buying, processing, and selling primarily ferrous metals. These joint ventures process and sell approximately 2.5 million long tons of ferrous scrap per year. Through these joint ventures, the Company participates in the management of 17 scrap collection and processing facilities, including export terminals in Los Angeles, California, Everett, Massachusetts, Providence, Rhode Island and Jersey City, New Jersey and 13 feeder yards. At the feeder yards scrap metal is collected, processed and then transported to one of the joint venture's export terminals for subsequent sale or sold directly to domestic purchasers.

Scrap Processing and Supply. The joint ventures predominantly produce shredded scrap and other grades of ferrous scrap, primarily heavy melting and premium grades. The joint ventures process scrap by shredding, sorting, baling, shearing or cutting the scrap into pieces suitable for melting. Processed scrap is either inventoried for later shipment or shipped directly by rail, truck, ship or barge to foreign or domestic steel mills.

Deep Water Terminal Facilities. Through its joint ventures, the Company participates in the management of export terminals in Los Angeles, California, Everett, Massachusetts, Providence, Rhode Island and Jersey City, New Jersey. The joint ventures deliver by ship processed scrap to steel producers throughout the world. As a result of owning or leasing these facilities, the joint ventures are not subject to berthing delays often experienced by users of unaffiliated terminal facilities.

Competition. The predominant competitive factors which impact the joint ventures' ability to obtain scrap as a raw material and scrap sales are price, including shipping costs, availability, reliability of service and product quality.

II. Joint Venture Suppliers of Scrap

The Company is a 50% partner in a joint venture which operates thirteen self-service used auto parts yards in central California and the Bay Area, two yards in Texas, one yard in Reno, Nevada, one yard in Salt Lake City, Utah and one yard in Summit, Illinois. Customers purchase parts that they remove themselves from wrecked automobiles purchased by the joint venture and displayed in its yards. The Company then has a right of first refusal to purchase the picked over car bodies for shredding at the Oakland scrap operation. The joint venture opened or acquired four yards in fiscal 1993, three yards in fiscal 1995, one yard in fiscal 1996, and two yards in fiscal 1997, and intends to continue to open or acquire new yards as appropriate sites are identified and acquired. During fiscal 1997, the Company purchased substantially all the car bodies generated in California by this joint venture.

The Company is also a 50% partner a joint venture operating out of Richmond, California which is an industrial plant demolition contractor. The joint venture dismantles industrial plants, performs environmental remediation, resells any machinery or pieces of steel that are salvaged from the plants in a usable form, and sells other recovered metals as scrap, primarily to the Company. During fiscal 1997, the Company purchased substantially all of the ferrous scrap

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generated by this joint venture. A related joint venture between the Company and its partner in the plant demolition joint venture was created in 1994 to act as an environmental remediation contractor.

The Company is also a partner in other joint ventures which provide the Company access to ferrous scrap.

During fiscal 1997, the Company purchased 167,000 long tons of ferrous scrap from its joint ventures, on terms negotiated at arms-length between the Company and the other partners to the joint ventures.

Steel Operations

The Company's Steel Operations are conducted by its subsidiary, Cascade Steel Rolling Mills, Inc., located in McMinnville, Oregon (approximately 45 miles southwest of Portland). Steel Operations' mini-mill was established in 1968 and acquired by the Company in 1984.

Products and Marketing. Steel Operations produces rebar, merchant bar, wire rod, coiled rebar and specialty products such as studded fence posts, grape stakes and special sections. Sales of these products during the last five fiscal years were as follows:

Fiscal Year Ended August 31,										
1997		1996		1995		1994		1993		
Sales	Vol.(1)	Sales	Vol.(1)	Sales	Vol.(1)	Sales	Vol.(1)	Sales	Vol.(1)	
(dollar amounts in millions)										
Rebar	\$104.9	341	\$ 98.7	321	\$ 78.3	255	\$ 85.9	310	\$ 73.0	286
Merchant bar	43.1	117	35.5	95	34.4	87	41.7	113	36.5	104
Wire rod	4.6	15								
Coiled rebar	1.7	5								
Specialty products	28.1	68	25.8	60	23.5	56	18.0	47	14.2	35
Total	\$182.4(2)	546	\$160.0	476	\$136.2(2)	398	\$145.6(2)	470	\$123.7	425

(1) In thousands of short tons (2,000 pounds).

(2) Does not include billet sales of \$1.3 million in 1997, \$5.2 million in 1995 and \$9.0 million in 1994.

Rebar is steel rod used to increase the tensile strength of poured concrete. Merchant bar consists of round, flat, angle and square steel bars used by fabricators or manufacturers to produce a wide variety of products, including gratings, steel floor and roof joints, safety walkways, ornamental furniture, stair railings and farm equipment. Wire rod is steel wire used by fabricators to produce a variety of products such as chain link fencing, nails, wire and stucco netting. Coiled rebar is rebar delivered on coils rather than in flat lengths, a method preferred by some fabricators. Specialty products include fence posts and other finished products. The Company's fence posts are designed to support barbed wire and are sold under the trademark White Top(TM) primarily to the agricultural industry. The addition of in-line straightening, stacking and bundling equipment to Rolling Mill #1 in fiscal 1995 allowed the Company to expand its higher-margin merchant bar product lines.

The Company's installation of a rod block and finishing equipment at Rolling Mill #2 for the rolling of wire rod and coiled rebar was completed in February 1997. Demand for wire rod and coiled rebar on the West Coast has traditionally been filled by suppliers outside of the region (both domestic and foreign), creating what the Company

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believes to be an attractive opportunity to capture market share and enhance profitability. The addition of the new bar mill, with its ability to produce Steel Operations' existing cut-to-length rebar products, has permitted the Company to increase its production of higher-margin merchant bar products at Rolling Mill #1 and also increased the Company's flexibility to adjust its product mix among rebar, merchant bar and wire rod products to respond to relative demand and price conditions among those products. The Company expects Steel Operations' total volume, particularly sales of higher-margin coiled rebar and wire rod, to increase due to the addition of Rolling Mill #2.

Steel Operations sells directly from its plant in McMinnville, Oregon and from its distribution centers located in Union City, California (San Francisco area) and El Monte, California (Los Angeles area). The two California distribution centers facilitate sales by holding a ready inventory of products close to major customers for just-in-time delivery. Steel Operations communicates regularly with major customers to determine their anticipated needs and plans its rolling mill production schedule accordingly. Steel Operations also produces and inventories a mix of products forecasted to meet the needs of other customers. Shipments to customers are made by common carrier, either truck or rail.

During the year ended August 31, 1997, Steel Operations sold its steel products to approximately 320 customers primarily located in the 10 western states. In that period, approximately 50% of Steel Operations' sales were made to customers in California. Steel Operations' customers are principally steel service centers, construction industry subcontractors, steel fabricators, and major farm and wood product suppliers.

One customer accounted for 13% of Steel Operations' revenues in fiscal 1997. Steel Operations' 10 largest customers accounted for approximately 47% of its revenues during fiscal 1997.

Scrap Supply. The Company believes it operates the only mini-mill in the United States which has the ability to obtain its entire scrap requirement from its own scrap operations. The demand for steel scrap has intensified with the increase in the number and capacity of steel producers both in the U.S. and overseas. There have at times been regional shortages of steel scrap with some mills being forced to pay higher prices for scrap shipped from other regions or to temporarily curtail operations. The Company's Scrap Operations currently supplies Steel Operations both with steel scrap that it has processed and with steel scrap that it has purchased from third-party processors. See "Scrap Operations." Scrap Operations is also able to deliver to Steel Operations an optimal mix of scrap grades to achieve maximum efficiency in its melting operations.

Energy Supply. Electricity and natural gas represented approximately 6% and 2% respectively, of Steel Operations' cost of goods sold in the year ended August 31, 1997.

Steel Operations purchases hydroelectric power from McMinnville Water & Light Company (McMinnville), a municipal utility that acquires its power from the Bonneville Power Administration (BPA). Steel Operations is McMinnville's largest customer. McMinnville obtains power at the lowest cost available from BPA and then resells it to Steel Operations at its cost plus a fixed charge per kilowatt hour and a 3% city surcharge. In fiscal 1997, Steel Operations paid an average of \$.03 per kilowatt hour used. The favored rate McMinnville obtains from BPA is for firm power; therefore, Steel Operations is not forced to sacrifice the reliability of its power supply for a lower interruptible power rate as is the case with certain other mini-mills. The contract with McMinnville expires June 30, 2001.

Steel Operations purchases natural gas for use in the reheat furnaces from Panenergy Gas Services of Salt Lake City, Utah, pursuant to a contract that obligates Steel Operations to purchase minimum amounts of gas at a fixed rate or pay a demand charge. The contract expires on October 31, 2004. All natural gas used by Steel Operations must be transmitted by a single pipeline owned by Northwest Natural Gas Company (Northwest) that also serves local residential customers of Northwest. To protect against interruptions in gas supply, Steel Operations maintains stand-by propane gas storage tanks which hold enough gas to operate one of the rolling mills for at least three days without refilling.

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Manufacturing Operations and Equipment. Steel Operations' melt shop includes a 96-ton capacity electric arc furnace and a five-strand continuous billet caster, installation of which was completed in May 1991. The melt shop is highly computerized and automated. The 96-ton capacity of the furnace accommodates larger, less expensive grades of scrap, resulting in scrap cost savings. Energy savings result in part from efficiencies of the larger furnace, but also as a result of post-combustion equipment added to the furnace in 1995. This technology injects oxygen into the furnace during melting operations which creates energy by combusting carbon monoxide. The melt shop also has enhanced steel chemistry refining capabilities, permitting the Company to produce higher margin products using special alloy quality grades of steel not currently produced by other mills on the West Coast, including the steel grades required for wire rod.

During the fiscal years ended August 31, 1995, 1996 and 1997 the melt shop produced 525,000, 493,000 and 586,000 tons of billets, respectively. The melt shop operates 24 hours a day, seven days a week, except for one six-to-ten hour period each week in which it is shut down for maintenance. In 1995 and 1996 Steel Operations constrained melt shop production through additional shutdown days to limit the increase in billet inventory. Production was not constrained in 1997. The Company continues to anticipate that the melt shop will produce over 700,000 tons of billets per year when it is operating at capacity.

Billets produced by the melt shop are reheated in one of two natural gas-fueled reheating furnaces and then drawn red-hot through one of two rolling mills. Rolling Mill #1, a technologically advanced 17-stand mill, was completed in July 1986. The mill is computerized, allowing for efficient synchronized operations of the rolls and related equipment. The computer controls facilitate the reconfiguration of the rolls to produce different products, thus reducing costly downtime. The computer controls include a self-diagnostic system that detects and identifies electronic and mechanical malfunctions in Rolling Mill #1. In 1994, Steel Operations completed the installation of in-line straightening, stacking and bundling equipment on the end of Rolling Mill #1. The addition of this equipment has permitted Steel Operations to improve the quality of its products and to produce its merchant bar products more efficiently by automating the straightening and bundling function. It has also permitted the Company to expand its higher-margin merchant bar product line.

Rolling Mill #2, a technologically advanced 18-stand mill, was completed in February 1996. The mill is computerized, allowing for efficient synchronized operations of the rolls and related equipment. The computer controls facilitate the reconfiguration of the rolls to produce different products, thus reducing costly downtime. The computer controls include a self-diagnostic system that detects and identifies electronic and mechanical malfunctions in the mill. Steel Operations installed a rod block at Rolling Mill #2 which was completed in February 1997. The rod block allows the Company to enhance its product mix through the production of coiled rebar and wire rod. In addition, the ability of Rolling Mill #2 to produce Steel Operations' existing cut-to-length rebar products permits the Company to increase its production of higher-margin merchant bar products at Rolling Mill #1 and also increases the Company's flexibility to adjust its product mix among rebar, merchant bar and wire rod products to respond to relative demand and price conditions among other products. Rolling Mill #2 is expected to expand the Company's rolling capacity, based on anticipated product mix, to about 700,000 tons annually to more closely match the potential output of the melt shop at full capacity. See Environmental Matters below regarding production limits under the Company's current air quality operating permit.

Steel Operations' melt shop and rolling mills are each shut down for one week twice each year for comprehensive maintenance (in addition to normal weekly maintenance performed throughout the year). During these periods, substantially all of the equipment in the mills are dismantled, inspected and overhauled.

Transportation. The Company makes extensive use of rail transportation for shipment of Steel Operations' products to its distribution centers and customers in California and for the shipment of scrap to Steel Operations from the Company's scrap yards and other scrap processors in Southern Oregon and California. As a result, the Company believes it is one of the largest customers of Southern Pacific Rail Corporation and the largest customer for northbound

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freight. The Company believes this position enables the Company to obtain favorable rates which permit Steel Operations to compete with mills that are closer to California markets.

Competition. Steel Operations competes predominantly with the following Western U.S. steel producers for sales of rebar and merchant bar: Birmingham Steel Corporation in Seattle, Washington; NUCOR Corporation in Plymouth, Utah; Tamco in Los Angeles, California; North Star Steel Company in Kingman, Arizona; and Chaparral Steel Company in Midlothian, Texas. Steel Operations also competes for sales of wire rod with the aforementioned North Star Steel Company mini-mill and an Oregon Steel Mill, Inc. plant located in Pueblo, Colorado, along with other domestic and foreign producers. Other domestic mills generally do not compete in the Company's market area because of transportation costs. The principal competitive factors in Steel Operations' market are price (including freight cost), availability, quality and service. Certain of Steel Operations' competitors have substantially greater financial resources than the Company. U.S. steel manufacturers have historically faced competition from foreign steel producers. The Company experienced some competition from Mexican steel mills in the Southern California market during fiscal 1996 and 1997. While the Company has experienced little foreign competition in recent years, there can be no assurance that foreign competition will not increase in the future.

Seasonality. Steel Operations' revenues can fluctuate significantly between quarters due to factors such as the seasonal slowdown in the construction industry and other industries it serves. In the past, Steel Operations has generally experienced its lowest sales during the second quarter of the fiscal year. The Company expects this pattern to continue in the future.

Backlog. Steel Operations generally ships products within days after the receipt of purchase orders. Accordingly, Steel Operations does not normally have any material backlog of firm orders.

Environmental Matters

Compliance with environmental laws and regulations is a significant factor in the Company's business. The Company is subject to local, state, federal, and supranational environmental laws and regulations concerning, among other matters, solid waste disposal, air emissions, waste water disposal, dredging, and employee health. Environmental legislation and regulations have changed rapidly in recent years and it is likely that the Company will be subject to even more stringent environmental standards in the future.

During 1994, in conjunction with the Company's due diligence investigation of MMI, a third-party consultant was hired to estimate the cost to cure both current and future environmental liabilities. Based on the consultant's report, MMI recorded in 1994 a reserve for the estimated cost to cure environmental liabilities. This reserve was carried over to the Company's financial statements and at August 31, 1997 aggregated \$20.5 million.

Schnitzer Steel of Tacoma (SST), MMI's subsidiary, owns and operates a scrap facility located on the Hylebos Waterway, a part of Commencement Bay, which is the subject of an ongoing environmental investigation and remediation project by the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). SST and well over 60 other parties were named potentially responsible parties (PRP's) for the investigation and cleanup of contaminated sediment along the Hylebos Waterway. SST and five other PRP's voluntarily have entered into an Administrative Order of Consent with the EPA to fund a pre-remedial study of sediment contamination and remediation alternatives. SST's share of the study, which is now expected to be completed in 1998, is approximately \$2 million. The Company may also be named in a claim for potential natural resource damages in Commencement Bay currently under assessment by certain government agencies and others acting as natural resource trustees.

In 1990, MMI entered into a Consent Decree with the Washington Department of Ecology which required the Company to pave the entire Tacoma scrap facility and install a stormwater collection and treatment system. The

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stormwater system has been installed and final paving was completed during fiscal 1996. On an ongoing basis, the Company is required to monitor the groundwater quarterly and maintain the paving.

MMI is also a named PRP at two third-party sites at which it allegedly disposed of transformers. At one site, MMI entered into a settlement under which it agreed to pay \$825,000 towards remediation of the site. Remediation of the site has been performed and the Department of Ecology has begun the process of certifying that clean-up of this site is complete. The other site has not yet been subject to significant remedial investigation. MMI has been named as a PRP at several other sites for which it has reached de minimis settlements. In addition to the matters discussed above, the Company's environmental reserve includes amounts for potential future cleanup of other sites at which MMI has conducted business or has allegedly disposed of other materials.

In 1996, prior to the Company's acquisition of Proler, Proler recorded a liability for the probable costs to remediate its wholly owned properties based upon a consultant's estimates. The Company carried over the aggregate reserve to its financial statements upon acquiring Proler and \$9.6 million remained outstanding on August 31, 1997. Also, Proler's joint ventures recorded additional liabilities of \$4.1 million for the probable costs to remediate their properties based on the consultant's estimates.

Between 1982 and 1987, MRI Corporation (MRI), a wholly owned subsidiary of Proler, operated a tin can shredding and detinning facility in Tampa, Florida. In 1989 and 1992, the EPA conducted a preliminary site investigation of this property and, in December 1996, added the site to the "National Priorities List". MRI and Proler, along with several other parties, have been named as PRPs for the site by the EPA. Additionally, Proler and/or this subsidiary have been named or identified as PRPs at several other sites. Proler included the probable costs associated with these sites in the aforementioned reserve.

As part of the Proler acquisition, the Company became a fifty-percent owner of Hugo Neu-Proler Company (HNP). HNP has agreed, as part of its recent lease renewal with the Port of Los Angeles, to be responsible for a multi-year, phased remedial clean-up project involving certain environmental conditions on its scrap processing facility at its Terminal Island site in Los Angeles, California by the year 2001. Remediation will include limited excavation and treatment of contaminated soils, paving, installation of a stormwater management system, construction of a noise barrier and perimeter wall around the facility, and groundwater monitoring. The probable costs to remediate this property are included in the aforementioned reserve.

Additionally, other Proler joint venture sites with potential environmental clean-up issues have been identified. The estimated potential clean-up costs associated with these sites have also been included in the aforementioned reserve.

After the shredding of automobile bodies and the separation of ferrous and salable nonferrous metals, the remaining auto shredder residue ("fluff") must be disposed. State and federal standards prescribe fluff sampling protocols which require representative samples of fluff to be analyzed to determine if they are likely to leach heavy metals, PCBs or other hazardous substances in excess of acceptable levels. Fluff from the Company's scrap operations in Oakland and Tacoma undergo an in-line chemical stabilization treatment before being sent to a landfill. Fluff generated at all of the Company's facilities meets all currently applicable contaminate leachate standards.

The fluff from the Company's sites is beneficially used as an alternative daily landfill cover. The California Department of Toxic Substances Control ("DTSC") has expressed reservations, which the Company is contesting, concerning whether the procedures employed by the Company with respect to Oakland's fluff are adequate under California law. The Company has implemented certain changes to its procedures to accommodate concerns raised by the DTSC and does not believe that the changes that have been made or any additional changes required by the DTSC will result in any significant additional expense to the Company, although there is no assurance that this will be the case.

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The Company's steel mini-mill generates electric arc furnace (EAF) dust, which is classified as a hazardous waste by the EPA because of its zinc and lead content. Currently, a majority of the Company's EAF dust is shipped to a firm in the United States that applies a treatment which delists the EAF dust as hazardous so it can be disposed of as a non-hazardous, solid waste. The remaining volume of the Company's EAF dust is either shipped to a firm in the United States that uses EAF dust to produce agricultural fertilizer or is exported, pursuant to an annually renewable export license, to a secondary smelter in Mexico that recycles EAF dust to produce commercial grade zinc and lead.

The Company's steel mini-mill has applied for an operating permit under Title V of the Clean Air Act Amendment (CAA) of 1990, which governs certain air quality standards and expects such permit to be issued during fiscal 1998. The mini-mill is currently authorized to produce approximately 600,000 tons of finished steel per calendar year under its existing permit issued in 1992 under the State of Oregon's Air Contaminant Discharge Permit program. The existing permit will be replaced by the Title V federally enforceable operating permit, which is expected to accommodate production of up to 850,000 tons per year.

As the mini-mill's production grows beyond current levels, the Company anticipates that it will need to enhance its existing facilities to properly control increased emissions in order to remain in compliance with the operating permit. The Company is currently evaluating alternative methods for controlling the growth in emissions. Any capital expenditures necessary to address this issue will not have a material adverse effect on the Company.

It is not possible to predict the total size of all capital expenditures or the amount of any increases in operating costs or other expenses that may be incurred by the Company or its subsidiaries to comply with environmental requirements applicable to the Company, its subsidiaries and their operations, or whether all such cost increases can be passed on to customers through product price increases. Moreover, environmental legislation has been enacted, and may in the future be enacted, to create liability for past actions that were lawful at the time taken but which have been found to affect the environment and to increase public rights of action for environmental conditions and activities. As is the case with steel producers and scrap processors in general, if damage to persons or the environment has been caused, or is in the future caused, by the Company's hazardous materials activities or by hazardous substances now or hereafter located at the Company's facilities, the Company may be fined and/or held liable for such damage and, in addition, may be required to remedy the condition. Thus, there can be no assurance that potential liabilities, expenditures, fines and penalties associated with environmental laws and regulations will not be imposed on the Company in the future or that such liabilities, expenditures, fines or penalties will not have a material adverse effect on the Company.

The Company has, in the past, been found not to be in compliance with certain environmental laws and regulations and has incurred liabilities, expenditures, fines and penalties associated with such violations. The Company's objective is to maintain compliance. Efforts are ongoing to be responsive to environmental regulations.

The Company believes that it is in material compliance with currently applicable environmental regulations as discussed above and does not anticipate any substantial capital expenditures for new environmental control facilities during fiscal 1998 or 1999.

Employees

As of August 31, 1997 the Company had 1,183 full-time employees, consisting of 544 employees at the Company's Scrap Operations, 565 employees at Steel Operations, and 74 corporate administrative employees. Of these employees, 712 are covered by collective bargaining agreements with eleven unions. Steel Operations' contract with the United Steelworkers of America covers 448 of these employees and expires on February 1, 2000. The Company believes that its labor relations generally are good.

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PART I (CONTINUED)

ITEM 2. PROPERTIES

The Company's Portland scrap operations, Portland deep water terminal facilities, and the related buildings and improvements are located on an approximately 120-acre industrial site owned by Schnitzer Investment Corp. (SIC), a related party, and leased to the Company under a long-term lease. See Part III, Item 13 "Certain Relationships and Related Transactions." Approximately 17 acres are occupied by the deep water terminal facilities, and the balance is used by the scrap operations.

The Sacramento scrap operations are located on a 7-acre site, most of which is leased from SIC under a long-term lease. See Part III, Item 13 "Certain Relationships and Related Transactions."

The following scrap operations are all located on sites owned by the Company:

LOCATION -----	ACREAGE OWNED AT SITE -----
Oakland	33
Tacoma	26
Fresno	17
Eugene	11
Grants Pass	5
White City	4
Bend	3

Steel Operations' steel mill and administrative offices are located on an 83-acre site owned by Steel Operations in McMinnville, Oregon. Steel Operations also owns its 87,000 sq. ft. distribution center in El Monte, California and its 46,000 sq. ft. distribution center in Union City, California.

The equipment and facilities on each of the foregoing sites are described in more detail in the descriptions of each of the Company's businesses. Due to rezoning, Steel Operations is forced to relocate its Union City, California distribution center by April 1999. The Company does not anticipate a problem finding a suitable replacement site. Except for the Union City facility mentioned above, the Company believes its present facilities are adequate for operating needs for the foreseeable future.

The Company's principal executive offices are located at 3200 NW Yeon Avenue in Portland, Oregon in 20,000 sq. ft. of space leased from SIC under two long-term leases. See Part III, Item 13 "Certain Relationships and Related Transactions."

ITEM 3. LEGAL PROCEEDINGS

Except as described above under Part I, Item 1 "Business -- Environmental Matters", the Company is not a party to any material pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended August 31, 1997.

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ITEM 4(a). EXECUTIVE OFFICERS OF THE REGISTRANT

Name - ----	Age ---	Office -----
Leonard Schnitzer	72	Chairman of the Board and Chief Executive Officer
Robert W. Philip	50	President
Kenneth M. Novack	51	Executive Vice President
Gary Schnitzer	55	Executive Vice President - California Scrap Operations
Barry A. Rosen	52	Vice President - Finance and Treasurer
Kurt C. Zetzsche	58	President of Steel Operations
Edgar C. Shanks	49	Vice President - Taxation
James W. Cruckshank	42	Controller and Assistant Treasurer
Dori Schnitzer	43	Secretary

Leonard Schnitzer has been the Chief Executive Officer of the Company since August 1973, and became Chairman of the Board in March 1991.

Robert W. Philip has been President of the Company since March 1991. He had been a Vice President of the Company since 1984 with responsibility for the Company's Metra Steel distribution division from 1984 to the time of its sale in July 1990. Mr. Philip is Leonard Schnitzer's son-in-law.

Kenneth M. Novack is Executive Vice President of the Company and President of Schnitzer Investment Corp. and certain other Schnitzer Group companies. From 1975 to 1980, he worked for the Company as Vice President and then Executive Vice President. Mr. Novack was also President of Schnitzer Investment Corp. from 1978 to 1980. From 1981 until April 1991, he was a partner in the law firm of Ball, Janik & Novack. Mr. Novack is the son-in-law of Gilbert Schnitzer, a brother of Leonard Schnitzer.

Gary Schnitzer has been Executive Vice President in charge of the Company's California scrap operations since 1980. Gary Schnitzer is the son of Gilbert Schnitzer.

Barry A. Rosen has been Vice President-Finance and Treasurer of the Company since 1982.

Kurt C. Zetzsche joined the Company in February 1993 as President of Steel Operations. Mr. Zetzsche has been in the steel production business since 1966. From 1990 to February 1993, he was President of Tennessee Valley Steel, a mini-mill steel producer. From 1976 to 1989, he was President of Knoxville Iron Co., also a mini-mill steel producer.

Edgar C. Shanks joined the Company in September 1991 as Vice President-Taxation. From 1970 to 1991, he was a CPA with Price Waterhouse LLP and was a partner there from 1982 to 1991.

James W. Cruckshank has been the Controller of the Company since May 1987. Except for a brief period in 1986, he has been employed by the Company in various accounting positions since 1984. From 1978 to 1984, he was a CPA with Price Waterhouse LLP.

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Dori Schnitzer has been the Secretary of the Company since June 1987. She also served as corporate counsel of the Company from October 1987 to May 1991 when she became Vice President of Lasco Shipping Co. Ms. Schnitzer is a daughter of Morris Schnitzer, a deceased brother of Leonard Schnitzer.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock is traded on the NASDAQ National Market System under the symbol SCHN. The approximate number of shareholders of record on September 30, 1997 was 100. The stock has been trading since November 16, 1993. The following table sets forth the high and low sales prices reported on the NASDAQ National Market System and the dividends paid per share for the periods indicated.

Fiscal Year 1997			
	HIGH SALES PRICE	LOW SALES PRICE	DIVIDENDS PER SHARE
First Quarter	\$30.00	\$24.25	\$.05
Second Quarter	29.25	25.00	.05
Third Quarter	31.25	22.00	.05
Fourth Quarter	34.75	24.00	.05

Fiscal Year 1996			
	HIGH SALES PRICE	LOW SALES PRICE	DIVIDENDS PER SHARE
First Quarter	\$30.75	\$26.00	\$.05
Second Quarter	31.75	28.00	.05
Third Quarter	30.50	24.00	.05
Fourth Quarter	29.25	23.50	.05

SCHNITZER STEEL INDUSTRIES, INC.
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ITEM 6. SELECTED FINANCIAL DATA

	Year Ended August 31,				
	1997 (1)	1996	1995 (2)	1994	1993
	-----	-----	-----	-----	-----
	(In millions, except per share, per ton and shipment data)				
INCOME STATEMENT DATA					
Revenues	\$ 361.7	\$ 339.3	\$ 330.7	\$ 261.7	\$ 204.9
Cost of goods sold and other operating expenses	314.8	290.8	284.5	234.3	188.1
Selling and administrative	21.2	18.9	16.2	13.2	13.3
Income from joint ventures	6.9	3.3	2.5	2.4	1.9
	-----	-----	-----	-----	-----
Income from operations	32.7	32.9	32.5	16.6	5.4
Interest expense	(5.0)	(3.8)	(2.4)	(1.0)	(2.3)
Other income	4.5	1.7	3.9	0.9	0.6
	-----	-----	-----	-----	-----
Income before income taxes	32.2	30.8	34.0	16.5	3.7
Income tax provision	(11.0)	(10.0)	(11.8)	(5.8)	(1.6)
	-----	-----	-----	-----	-----
Net income	\$ 21.2	\$ 20.8	\$ 22.2	\$ 10.7	\$ 2.1
	=====	=====	=====	=====	=====
	-----	-----	-----	-----	-----
Earnings per share	\$ 2.05	\$ 2.24	\$ 2.82	\$ 1.47	\$ 0.42
	=====	=====	=====	=====	=====
	-----	-----	-----	-----	-----
Dividends per common share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.15	\$ --
	=====	=====	=====	=====	=====
OTHER DATA					
Shipments (in thousands of tons)(3)					
Ferrous scrap	1,518	1,479	1,254	991	953
Finished steel products	546	476	398	470	425
Average selling price per ton:					
Ferrous scrap	\$ 138	\$ 146	\$ 154	\$ 148	\$ 126
Finished steel products	334	336	342	310	291
Depreciation and amortization	\$ 18.3	\$ 14.0	\$ 11.6	\$ 9.3	\$ 9.9
Capital expenditures	15.5	44.6	31.1	21.1	5.6
	1997	1996	Year Ended August 31, 1995	1994	1993
	-----	-----	-----	-----	-----
	(In millions)				
BALANCE SHEET DATA:					
Working capital	\$ 104.9	\$ 92.4	\$ 56.8	\$ 48.2	\$ 39.7
Total assets	428.0	337.5	280.3	164.1	148.8
Short-term debt	0.4	0.2	0.2	1.9	4.4
Long-term debt	92.9	44.5	64.7	2.8	44.5
Shareholders' equity	239.1	223.8	136.0	115.3	58.1

(1) Includes the results of operations of Proler from November 29, 1996 through August 31, 1997. See Note 12 to the Consolidated Financial Statements.

(2) Includes the results of operations of MMI from March 17, 1995, the date of acquisition, through August 31, 1995. See Note 13 to the Consolidated Financial Statements.

(3) Tons for ferrous scrap are long tons (2,240 pounds) and for finished steel products are short tons (2,000 pounds).

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PART II (CONTINUED)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The results of operations of the Company depend in large part upon demand and prices for scrap metals in world markets and steel products on the U.S. West Coast. Increasing steel demand and prices have led to improved profitability since fiscal 1993, although the Company experienced softening in its markets in fiscal 1996 and 1997.

The Company's income from joint ventures for the year ended August 31, 1997 was significantly higher than in prior years due to the acquisition of Proler, effective November 29, 1996. In March 1995, the Company acquired all of the outstanding stock of MMI. MMI's results of operations have been included in the Company's financial statements since March 17, 1995 and have had a significant impact on the Company's scrap related revenue and income since then. In December 1993, the Company acquired four smaller scrap yards in central and southern Oregon.

The following tables set forth information regarding the breakdown of revenues between the Company's Scrap Operations and Steel Operations, and the breakdown of income from operations between Scrap Operations, Steel Operations and Joint Ventures. Additional financial information relating to business segments is contained in Note 10 of the Notes to Consolidated Financial Statements.

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-K
PART II (CONTINUED)

Revenues Year Ended August 31,					
(In millions)					
	1997 (1)	1996	1995 (2)	1994	1993
Scrap Operations:					
Ferrous	\$ 208.8	\$ 215.9	\$ 205.8	\$ 146.4	\$ 120.5
Nonferrous (3)	11.0	10.7	32.2	11.4	6.5
Other	16.6	6.8	6.1		
	-----	-----	-----	-----	-----
				4.0	2.7
Scrap Total	236.4	233.4	244.1	161.8	129.7
Sales to Steel Operations (4)	(58.4)	(54.1)	(54.9)	(54.7)	(48.5)
	-----	-----	-----	-----	-----
Sales to Unaffiliated Customers	178.0	179.3	189.2	107.1	81.2
Steel Operations	183.7	160.0	141.5	154.6	123.7
	-----	-----	-----	-----	-----
Total	\$ 361.7	\$ 339.3	\$ 330.7	\$ 261.7	\$ 204.9
	=====	=====	=====	=====	=====

Income from Operations Year Ended August 31,					
(In millions)					
	1997 (1)	1996	1995 (2)	1994	1993
Scrap Operations	\$ 27.4	\$ 29.6	\$ 26.3	\$ 12.3	\$ 6.5
Steel Operations	5.5	6.3	9.3	6.5	1.9
Joint Ventures	6.9	3.3	2.5	2.4	1.9
Corporate Expense and Eliminations (5)	(7.2)	(6.3)	(5.6)	(4.6)	(4.9)
	-----	-----	-----	-----	-----
Income from Operations	\$ 32.6	\$ 32.9	\$ 32.5	\$ 16.6	\$ 5.4
	=====	=====	=====	=====	=====

- (1) Includes the results of operations of Proler from November 29, 1996, the date of acquisition, through August 31, 1997.
- (2) Includes the results of operations of MMI from March 17, 1995, the date of acquisition, through August 31, 1995.
- (3) In July 1995, the Company sold certain of its Portland nonferrous operations including a nonferrous business acquired in the MMI transaction, which resulted in a decline in nonferrous revenues for fiscal 1996.
- (4) Ferrous scrap sales from Scrap Operations to Steel Operations are made at a negotiated market rate per ton.
- (5) Corporate expense and eliminations consist primarily of unallocated corporate expense for services that benefit both Scrap Operations and Steel Operations. Because of this unallocated expense, the income from operations of each segment does not reflect the income from operations the segment would have as a stand-alone business.

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-K
PART II (CONTINUED)

Fiscal 1997 Compared to Fiscal 1996

Revenues for both scrap and steel increased, resulting in an overall increase in the Company's revenues of \$22.4 million to \$361.7 million for fiscal 1997 compared with fiscal 1996. The Company achieved record shipments of both scrap and finished steel products in fiscal 1997.

Scrap Operations generated revenues of \$236.4 million, before intercompany eliminations, during fiscal 1997 compared with \$233.4 million in fiscal 1996, representing an increase of \$3.0 million (1%). Ferrous revenues declined, however, despite a 39,000 ton (3%) increase in shipments, due to softer selling prices for scrap. Sales to the Company's Steel Operations increased by 43,000 tons (10%) to 494,000 tons. Although the total number of scrap export shipments were the same as last year, foreign scrap tonnage declined slightly, while domestic third party sales tonnage remained relatively the same as last year. Average ferrous scrap revenues per ton for the first three quarters of fiscal 1997 were lower than for the same period last year, resulting in a lower average selling price for the year of \$138 per ton compared with \$146 for fiscal 1996. The Company believes that, due to a temporary build-up in scrap inventories by scrap processors and steel mills caused by a slackening in demand, the average prices for ferrous scrap on the world market declined during this period. The average selling price during the fourth quarter of fiscal 1997 was higher than for the same period last year. Based on contracts signed to date, the Company expects to see improvements in prices in the first quarter of fiscal 1998 over prices realized during fiscal 1997. See "Forward Looking Statements". The increase in other sales reflects the acquisition of Proler in November 1996.

Steel Operations' revenues increased \$23.7 million (15%) to \$183.7 million. Higher volumes sold, offset by lower average selling prices, contributed to the increase. The Company experienced increased tonnage sales in all product categories, due in part to the addition of a new rolling mill in February 1996. Average finished steel selling prices, excluding billets, declined from \$336 to \$334 per ton, reflecting lower prices for all categories of the Company's primary finished steel products. The expansion of steel-making capacity by the Company's competitors and an influx of finished steel shipments from Mexico into Southern California through the third quarter of fiscal 1997 were predominantly responsible for a decline in average selling prices in the market on the U.S. West Coast. The mix of products sold also changed during fiscal 1997, impacting the average selling prices. With the addition of a new rod block on the Company's newest rolling mill in February 1997, Steel Operations began producing wire rod and coiled reinforcing bar (rebar) products. Sales of these products during fiscal 1997 aggregated 20,400 tons. During fiscal 1997, the Company also sold 5,600 tons of billets. No billets were sold in fiscal 1996.

Cost of Goods Sold. Overall, cost of goods sold increased \$23.9 million (8%) to \$314.8 million and increased as a percentage of revenues from 86% in fiscal 1996 to 87% in fiscal 1997. Gross profit declined \$1.5 million (3%) to \$47.0 million.

Scrap Operations' cost of goods sold increased \$4.0 (2%) million to \$197.9 million due to increased tonnage sold. The average cost of goods sold per ton of ferrous scrap declined as the Company managed purchase prices at the scale while selling prices were declining. However, the average selling price of ferrous scrap declined more quickly than the cost of goods sold per ton, resulting in an overall decline in Scrap Operations' gross profit of \$1.1 million, despite the increase in tons sold.

Cost of goods sold for Steel Operations increased \$24.4 million (16%) to \$175.4 million due predominantly to higher tonnage sales. Cost of goods sold as a percentage of revenues increased from 94% to 95% due to the decline in the average selling price. The Company recognized higher depreciation expense in fiscal 1997 compared with fiscal 1996, due to the addition of its new rod mill in February 1996 and rod block in February 1997, increasing cost of goods sold per ton. However, production efficiencies and, in some cases, lower production costs positively impacted cost of goods sold. As a result, the average cost of sales per ton of finished steel products remained

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-K
PART II (CONTINUED)

virtually unchanged. Steel Operations' gross profit declined \$.7 million because of the lower average selling prices, partially offset by the increase in finished steel shipments.

Selling and Administrative Expenses. Selling and administrative expenses increased \$2.4 million (13%) in fiscal 1997 compared with fiscal 1996 predominantly as a result of increases to accommodate corporate growth and the Proler acquisition.

Income from Joint Ventures. Income from joint ventures for fiscal 1997 increased \$3.6 million due to the Proler acquisition in November 1996. Aggregate income for the Company's other joint ventures declined slightly as large projects which were in process in fiscal 1996 were completed that year.

Interest Expense. Interest expense for fiscal 1997 increased by \$1.2 million (32%) because of additional debt incurred to finance the acquisition of Proler. Average borrowings for fiscal 1997 were \$96.1 million compared with \$72.2 million for fiscal 1996. The average interest rate for fiscal 1997 was 5.7% and for fiscal 1996 was 5.9%.

Other Income. Other income increased \$2.9 million during the year ended August 31, 1997 compared with the prior fiscal year. During fiscal 1997, the Company recognized a gain of approximately \$3 million upon settlement of an interest rate agreement. The Company initially entered into the agreement for the sole purpose of locking in the interest rate on a planned private placement of debt, which the Company subsequently decided against pursuing. The Company has not in the past and does not intend in the future to enter speculative hedge arrangements.

Fiscal 1996 Compared to Fiscal 1995

Revenues. Revenues in fiscal 1996 increased \$8.6 million (3%) compared to fiscal 1995, as an increase in steel revenues more than offset a decrease in scrap revenues. Revenues from Scrap Operations before intercompany eliminations decreased by \$10.7 million (4%), reflecting increased shipments of ferrous scrap offset by lower average selling prices and decreased nonferrous scrap sales. Ferrous scrap revenues increased \$10.1 million (5%) and shipments increased by 225,700 tons (18%). Ferrous scrap sales to unaffiliated customers increased by \$10.9 million (7%), reflecting a 203,500 ton (25%) increase in shipments. Ferrous scrap sales to unaffiliated customers included a 177,900 ton increase in export shipments and a 25,600 ton increase in shipments to other domestic steel mills as a result of the acquisition of MMI in March 1995. Average selling prices of ferrous scrap decreased \$8 per ton (5%) to \$146 per ton. See "Forward Looking Statements." Nonferrous scrap revenues decreased \$21.5 million (67%) resulting from a 55% decrease in nonferrous shipments, due to the sale of the Company's Portland, Oregon nonferrous operations in July 1995, combined with a 27% decrease in average selling prices.

Steel Operations' revenues increased \$18.5 million (13%) in fiscal 1996 compared with fiscal 1995 resulting from increased shipments of finished steel products offset by lower average selling prices and decreased billet sales. Finished steel revenues increased \$23.8 million (17%) as shipments increased 78,000 tons (20%) primarily due to the new rolling mill, which began production in February. There were no billet sales in fiscal 1996 compared to 23,500 tons of billet shipments, or \$5.2 million in billet revenues, in fiscal 1995. It is not the Company's intent to produce billets for resale. Average finished steel selling prices, excluding billets, decreased \$6 per ton (2%) to \$336 per ton as finished steel selling prices remained relatively soft throughout the fourth quarter.

Cost of Goods Sold. Overall cost of goods sold increased \$6.3 million (2%) in fiscal 1996, but as a percentage of revenues remained unchanged at 86%. Gross profit increased \$2.3 million (5%) to \$48.5 million in fiscal 1996 as a result of a \$4.9 million increase in Scrap Operations' gross profit offset by a \$2.8 million decrease in Steel Operations' gross profit.

Cost of goods sold for Scrap Operations decreased by \$15.5 million (7%) to \$193.9 million and decreased as a percentage of scrap revenues from 86% to 83%. Average cost of goods sold per ton of ferrous scrap decreased from

SCHNITZER STEEL INDUSTRIES, INC.
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PART II (CONTINUED)

\$131 to \$123. Scrap Operations' gross profit increased from \$34.7 million to \$39.6 million primarily as a result of a \$4.5 million increase in ferrous scrap gross profit compared to fiscal 1995. Ferrous gross profit increased as a result of a 225,700 ton increase in shipments, while the average gross profit per ton was relatively unchanged despite falling prices. For fiscal 1996, nonferrous gross profit decreased \$1.3 million primarily as a result of a 31,000 ton decrease in shipments.

Cost of goods sold for Steel Operations in fiscal 1996 increased \$21.3 million (17%) and increased as a percentage of revenues from 92% to 94%. The increase resulted predominately from increased finished steel shipments combined with a \$5 per ton increase in average finished steel cost of goods sold. The \$5 per ton increase reflects increased rolling mill costs primarily due to the start up of the new rolling mill offset by a decrease in depreciation expense as a result of a change in the estimated remaining life of the melt shop. Steel Operations' gross profit decreased \$2.8 million to \$9.1 million as a result of lower average selling prices combined with an increase in cost of goods sold partially offset by the increase in finished steel shipments.

Selling and Administrative Expenses. Selling and administrative expenses increased \$2.7 million (17%) to \$18.9 million for fiscal 1996 compared to fiscal 1995, primarily due to the Company's acquisition of MMI in March 1995.

Income from Joint Ventures. Income from joint ventures for fiscal 1996 increased \$.8 million compared to the prior year largely due to the improved results at the industrial plant reclamation, asbestos removal and used auto parts joint ventures.

Interest Expense. Interest expense for fiscal year 1996 increased \$1.4 million compared with fiscal 1995 as a result of higher average borrowings during part of 1996 due in part to the acquisition of MMI and capital expenditures at Steel Operations for the addition of the new wire rod and bar mill. Average borrowings were lower during the fourth quarter of fiscal 1996, however, as the Company used the proceeds it received from its February 1996 stock offering and cash generated from operations to pay down debt. Average borrowings for fiscal 1996 were \$72.2 million compared with \$37.5 million for fiscal 1995. The average interest rate for fiscal 1996 was 5.9% and for fiscal 1995 was 6.3%.

Other Income. Other income decreased \$2.2 million to \$1.7 million in fiscal 1996. A significant portion of this decrease resulted from a decrease in gain on sale of assets, down \$1.7 million from fiscal 1995, primarily due to the sale of certain of the Company's nonferrous assets in July 1995. Other income in fiscal 1995 also included \$.7 million in property tax refunds.

Liquidity and Capital Resources

For the year ended August 31, 1997, cash generated by operations was \$23.1 million compared with cash used by operations of \$5.8 million for the same period last year. The increase in cash generated this year is predominantly due to the fact that inventories did not increase as significantly this year as they did in fiscal 1996. In 1996, Scrap Operations' inventories rose due to the timing of export shipments and Steel Operations experienced increases in finished goods and supplies inventories related to the addition of a new rod and bar mill.

Capital expenditures and expenditures for acquisitions totaled \$57.9 million, \$44.6 million and \$95.9 million for fiscal years 1997, 1996 and 1995, respectively. Expenditures for fiscal 1997 included the acquisition of Proler for \$42.5 million and remaining payments for the new wire rod block completed in February 1997. During fiscal 1996 and fiscal 1995, the Company incurred significant capital outlays related to construction of a new rod and bar mill which was placed into service in February 1996. Expenditures during fiscal 1995 also reflect the acquisition of MMI in March 1995 and final payments on an in-line straightener for Steel Operations. The Company expects to spend approximately \$15 million on capital improvements during fiscal 1998.

SCHNITZER STEEL INDUSTRIES, INC.
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PART II (CONTINUED)

As part of its acquisitions of Proler and MMI, the Company assumed environmental liabilities aggregating \$30.3 million as of August 31, 1997. The Company expects to require significant future cash outlays as it incurs the actual costs relating to the remediation of such environmental liabilities.

In June 1997, the Company completed a renegotiation of its unsecured revolving credit agreement whereby it increased the facility to \$200 million and extended the maturity of the facility to June 2002. As of August 31, 1997, the Company also had additional lines of credit available of \$55 million, \$35 million of which was uncommitted. In the aggregate, the Company had borrowings outstanding under these lines of \$82.6 million. The increase in borrowings outstanding under the lines since August 31, 1996 is predominantly due to the acquisition of Proler in November 1996 offset by additional financing of approximately \$7.7 million related to the Company's Steel Operations.

The Company believes that the current cash balance, internally generated funds and existing credit facilities will provide adequate financing for capital expenditures, working capital and debt service requirements for the next year. In the longer term, the Company may seek to finance business expansion with additional borrowing arrangements or additional equity financing.

Forward Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward looking statements that involve a number of risks and uncertainties. Future market conditions are subject to supply and demand conditions and decisions of other market participants over which the Company has no control and which are inherently difficult to predict. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: business conditions and growth in the scrap and steel industries; competitive factors, including pricing pressures from national steel companies; availability of scrap supply; fluctuations in scrap prices; and seasonality of results.

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-K
PART II (CONTINUED)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules and exhibits are omitted, as the information is not applicable or is not required.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Schnitzer Steel Industries, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Schnitzer Steel Industries, Inc. and its subsidiaries at August 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP
Portland, Oregon
September 26, 1997

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEET
(in thousands, except per share amounts)

	August 31,	
	1997	1996
<hr/>		
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,106	\$ 1,896
Accounts receivable, less allowance for doubtful accounts of \$524 and \$420	31,010	23,542
Accounts receivable from related parties	1,215	1,058
Inventories (Note 2)	95,154	90,746
Deferred income taxes (Note 6)	10,737	3,128
Prepaid expenses and other	3,168	4,118
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	144,390	124,488
	<hr/>	<hr/>
NET PROPERTY, PLANT & EQUIPMENT (Note 3)	151,136	150,517
OTHER ASSETS:		
Investment in joint venture partnerships (Note 11)	74,605	9,909
Advances to joint venture partnerships (Note 11)	7,145	4,163
Goodwill (Note 13)	42,230	43,445
Intangibles and other	8,480	4,967
	<hr/>	<hr/>
	\$ 427,986	\$ 337,489
	=====	=====
 LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 4)	\$ 361	\$ 254
Accounts payable	19,456	17,877
Accrued payroll liabilities	5,158	4,135
Deferred revenues	292	392
Current portion of environmental liabilities (Note 5)	5,787	2,202
Other accrued liabilities	8,438	6,360
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	39,492	31,220
	<hr/>	<hr/>
DEFERRED INCOME TAXES (Note 6)	28,409	15,994
LONG-TERM DEBT LESS CURRENT PORTION (Note 4)	92,881	44,475
ENVIRONMENTAL LIABILITIES, NET OF CURRENT PORTION (Note 5)	24,530	20,736
OTHER LONG-TERM LIABILITIES (Note 8)	3,613	1,251
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY:		
Preferred stock--20,000 shares authorized, none issued		
Class A common stock--75,000 shares \$1 par value authorized, 5,737 and 5,773 shares issued and outstanding	5,737	5,773
Class B common stock--25,000 shares \$1 par value authorized, 4,445 and 4,575 shares issued and outstanding	4,445	4,575
Additional paid-in capital	109,994	113,747
Retained earnings	118,885	99,718
	<hr/>	<hr/>
	239,061	223,813
	<hr/>	<hr/>
	\$ 427,986	\$ 337,489
	=====	=====

The accompanying notes are an integral part of this statement

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended August 31,		
	1997	1996	1995
REVENUES	\$ 361,753	\$ 339,352	\$ 330,711
COSTS AND EXPENSES:			
Cost of goods sold and other operating expenses	314,785	290,841	284,500
Selling and administrative	21,238	18,860	16,155
	336,023	309,701	300,655
Income from joint ventures (Note 11)	6,876	3,291	2,511
INCOME FROM OPERATIONS	32,606	32,942	32,567
OTHER INCOME (EXPENSE):			
Interest expense	(5,026)	(3,814)	(2,441)
Gain on sale of assets	203	209	1,929
Other income (Note 4)	4,388	1,452	1,974
	(435)	(2,153)	1,462
INCOME BEFORE INCOME TAXES	32,171	30,789	34,029
Income tax provision (Note 6)	(10,946)	(10,006)	(11,782)
NET INCOME	\$ 21,225	\$ 20,783	\$ 22,247
EARNINGS PER SHARE	\$ 2.05	\$ 2.24	\$ 2.82

The accompanying notes are an integral part of this statement

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(in thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
BALANCE AT 8/31/94	3,123	\$ 3,123	4,766	\$ 4,766	\$ 47,322	\$ 60,093	\$ 115,304
Class B common stock converted to Class A common stock	5	5	(5)	(5)			
Net income						22,247	22,247
Dividends paid						(1,578)	(1,578)
BALANCE AT 8/31/95	3,128	3,128	4,761	4,761	47,322	80,762	135,973
Class A common stock issued	2,500	2,500			67,350		69,850
Class B common stock converted to Class A common stock	186	186	(186)	(186)			
Class A common stock repurchased	(41)	(41)			(925)		(966)
Net income						20,783	20,783
Dividends paid						(1,827)	(1,827)
BALANCE AT 8/31/96	5,773	\$ 5,773	4,575	\$ 4,575	\$ 113,747	\$ 99,718	\$ 223,813
Class B common stock converted to Class A common stock	130	130	(130)	(130)			
Class A common stock repurchased	(166)	(166)			(3,753)		(3,919)
Net income						21,225	21,225
Dividends paid						(2,058)	(2,058)
BALANCE AT 8/31/97	5,737	\$ 5,737	4,445	\$ 4,445	\$ 109,994	\$ 118,885	\$ 239,061

The accompanying notes are an integral part of this statement

SCHNITZER STEEL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended August 31,		
	1997	1996	1995
OPERATIONS:			
Net income	\$ 21,225	\$ 20,783	\$ 22,247
Noncash items included in income:			
Depreciation and amortization	18,265	13,994	11,598
Deferred income taxes	(2,211)	3,517	(1,308)
Equity in earnings of joint ventures and other investments	(6,876)	(3,291)	(2,511)
Gain on disposal of assets	(180)	(209)	(1,929)
Cash provided (used) by assets and liabilities:			
Accounts receivable	(5,345)	(6,564)	9,270
Inventories	(2,267)	(18,893)	(13,008)
Prepaid expenses and other	2,414	(2,299)	(121)
Accounts payable	(3,929)	(2,719)	3,951
Deferred revenue	(100)	(3,524)	3,898
Accrued expenses	4,507	(4,031)	931
Environmental liabilities	(2,420)		
Other assets and liabilities	51	(2,603)	667
NET CASH PROVIDED (USED) BY OPERATIONS	23,134	(5,839)	33,685
INVESTMENTS:			
Payment for purchase of Proler (Note 12)	(42,456)		
Payment for purchase of MMI, net of cash acquired (Note 13)			(64,799)
Capital expenditures	(15,486)	(44,589)	(31,158)
Advances to joint ventures	(2,982)	(324)	(4,238)
Investments in joint ventures	(78,392)		
Distributions from joint ventures	96,658	2,370	750
Capitalization of losses on assets held for sale	(1,689)		
Proceeds from sale of assets	4,887	1,839	4,982
NET CASH USED BY INVESTMENTS	(39,460)	(40,704)	(94,463)
FINANCING:			
Proceeds from sale of Class A common stock		69,850	
Repurchase of Class A common stock	(3,919)	(966)	
Dividends declared and paid	(2,058)	(1,827)	(1,578)
Increase in long-term debt	48,600		61,750
Reduction in long-term debt	(25,087)	(20,216)	(2,181)
NET CASH PROVIDED BY FINANCING	17,536	46,841	57,991
NET INCREASE IN CASH	1,210	298	(2,787)
CASH AT BEGINNING OF PERIOD	1,896	1,598	4,385
CASH AT END OF PERIOD	\$ 3,106	\$ 1,896	\$ 1,598

The accompanying notes are an integral part of this statement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

Note 1 - Nature of Business and Summary of Significant Accounting Policies:

Nature of Business

Schnitzer Steel Industries, Inc. (the Company) operates a scrap metal processing and recycling business and a mini-mill steel production business in Oregon, Washington and California. Additionally, as a result of its acquisition of Proler International Corp. effective November 29, 1996 (see Note 12), through joint ventures, the Company participates in the management of additional scrap collection and processing facilities in California, Massachusetts, Rhode Island, New Jersey, New York, Arizona, New Hampshire and Maine.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company, through subsidiaries, holds a 50% interest in seven joint ventures operating in the Western and Eastern United States and a 33 1/3% interest in one joint venture in New Jersey, which are accounted for using the equity method. All intercompany transactions and balances have been eliminated.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using LIFO (last-in, first-out) and average cost methods.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Major renewals and improvements are capitalized. Expenditures for maintenance and repairs are charged to income as incurred.

Depreciation is determined principally using the straight-line method over estimated useful lives of 20 to 40 years for buildings and 3 to 10 years for equipment. Leasehold improvements are amortized over the estimated useful lives of the property or the remaining lease term, whichever is less. When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and resulting gains or losses are included in other income.

Goodwill

Goodwill is being amortized on a straight-line basis over 40 years. At August 31, 1997 and 1996, accumulated amortization aggregated \$3,670 and \$2,456, respectively. Goodwill is periodically reviewed by the Company for impairments where the fair value may be less than the carrying value.

Common Stock Voting Rights

Each share of Class A common stock is entitled to one vote and each share of Class B common stock is entitled to ten votes.

Net Income Per Share

Net income per share is based on weighted average common and common equivalent shares outstanding of 10,377,137 9,295,705 and 7,906,593, for fiscal years 1997, 1996 and 1995, respectively.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share" (SFAS No. 128) which establishes standards for computing and presenting earnings per share (EPS). SFAS No. 128 replaces the presentation of primary and fully diluted EPS with a presentation of basic and diluted EPS. Basic EPS is computed

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur from any instrument which could result in additional common shares being issued. SFAS No. 128 must be adopted for the Company's fiscal 1998 and requires restatement of all prior-period EPS data presented. The adoption will not materially affect the EPS reported during fiscal 1997.

Interest and Income Taxes Paid

The Company paid \$5,093, \$5,016 and \$2,719 in interest during fiscal years 1997, 1996 and 1995, respectively. For the same periods, the Company paid \$7,283, \$10,703 and \$12,431 in income taxes.

Fair Value of Financial Instruments

Cash, receivables and current liabilities are reflected in the consolidated financial statements at fair value because of the short-term maturity of these instruments. The fair value of long-term debt is deemed to be the same as that reflected in the consolidated financial statements given the variable interest rates on the significant credit facilities. There are no quoted prices for the Company's investments in joint ventures accounted for on the equity method. A reasonable estimate of fair value could not be made without incurring excessive costs.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in accordance with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 - Inventories:

Inventories consist of the following:

	August 31,	
	1997	1996
Scrap metals	\$ 26,897	\$ 21,006
Work in process	24,358	24,535
Finished goods	28,109	29,767
Supplies	15,790	15,438
	-----	-----
	\$ 95,154	\$ 90,746
	=====	=====

Scrap metal inventories are valued at LIFO; the remainder are at average cost. The cost of scrap metal inventories exceeded the stated LIFO value by \$8,039 and \$8,215 at August 31, 1997 and 1996, respectively.

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

Note 3 - Property, Plant and Equipment:

Property, plant and equipment consist of the following:

	August 31,	
	1997	1996
Land and improvements	\$ 32,580	\$ 31,235
Buildings and leasehold improvements	17,757	15,425
Machinery and equipment	212,380	195,367
Construction in progress	4,846	8,489
	265,563	250,516
Less accumulated depreciation	(114,427)	(99,999)
	\$151,136	\$150,517
	=====	=====

Capitalized interest costs associated with construction were \$292 and \$1,112 in fiscal years 1997 and 1996, respectively.

Note 4 - Long-Term Debt:

Long-term debt consists of the following:

	August 31,	
	1997	1996
Bank unsecured revolving credit facility, \$200,000 maximum	\$ 82,600	\$ 41,500
Tax-exempt economic development revenue bonds due January 2022, interest payable monthly at variable rate (3.5% at August 31, 1997), secured by a letter of credit	7,700	
State of Oregon loan for energy conservation equipment, secured by equipment, 7.89% fixed-rate interest, principal and interest installments payable monthly through June 2011	2,188	2,273
Other	754	956
Total long-term debt	93,242	44,729
Less portion due within one year	361	254
Long-term debt less current portion	\$ 92,881	\$ 44,475
	=====	=====

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

At August 31, 1997, the Company had a \$200,000 unsecured revolving credit facility with its banks. Individual advances outstanding under the line bear interest at floating rates. As of August 31, 1997, such rates averaged 5.8%. Interest is payable upon maturity of each advance under the line. The facility matures in June 2002, at which time all principal amounts outstanding are due.

In addition to the above facility, the Company has a committed line of credit of \$20 million and an uncommitted line of credit of \$35 million with other banks.

The committed bank credit facilities contain financial covenants, including covenants related to net worth, the ratios of current assets to current liabilities, and debt to equity and cash flow.

Payments on long-term debt during the next five fiscal years are as follows:

1998	\$ 361
1999	180
2000	193
2001	207
2002	82,820
Thereafter	9,481

	\$93,242
	=====

In February 1997, the Company entered into an interest rate agreement for the sole purpose of locking in the interest rate on a planned private placement of debt. The Company subsequently decided against pursuing the private placement in April 1997 and, thus, recognized the deferred gain on the agreement of approximately \$3 million. This amount is included in other income in the accompanying statement of operations for the year ended August 31, 1997.

Note 5 - Environmental Liabilities:

In conjunction with the due diligence proceedings for the Company's acquisition of Manufacturing Management, Inc. (MMI) in March 1995, an independent third-party consultant was hired to estimate the costs to cure both current and future potential environmental liabilities. The cumulative provision for the total costs specified in the consultant's report was included in MMI's statement of operations prior to its acquisition by the Company. This reserve was carried over to the Company's balance sheet and at August 31, 1997 aggregated \$20.5 million.

Schnitzer Steel of Tacoma (SST), formerly General Metals of Tacoma, a subsidiary of MMI, owns and operates a scrap facility located on the Hylebos Waterway, a part of Commencement Bay, which is the subject of an ongoing environmental investigation and remediation project by the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). SST and well over 60 other parties were named potentially responsible parties (PRP) for the investigation and cleanup of contaminated sediment along the Hylebos Waterway. SST and five other PRPs voluntarily have entered into an Administrative Order of Consent with the EPA to fund a pre-remedial study of sediment contamination and remediation alternatives. SST's share of the study, which is now expected to be completed in 1998, is approximately \$2 million. Any further potential liabilities, if any, cannot be estimated at this time.

In 1996, prior to the Company's acquisition of Proler International Corp. (Proler) (see Note 12), an independent third-party consultant was engaged to estimate the costs to cure present and future environmental liabilities related to Proler's wholly-owned and joint venture properties. Proler recorded a liability of \$8.6 million for the probable costs to remediate its wholly-owned properties based upon the consultant's estimates, increasing its environmental reserve to \$9.8 million. The Company carried over the aggregate reserve to its financial statements upon acquiring Proler and

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

\$9.6 million remained outstanding on August 31, 1997. Also, Proler's joint venture operations recorded additional liabilities of \$4.1 million for the probable costs to remediate their properties, based upon the consultant's estimates, in 1996 prior to the Company's acquisition of Proler.

Between 1982 and 1987, MRI Corporation (MRI), a wholly-owned subsidiary of Proler, operated a tin can shredding and detinning facility in Tampa, Florida. In 1989 and 1992, the EPA conducted a preliminary site investigation of this property and, in December 1996, added the site to the "National Priorities List". MRI and Proler, along with several other parties have been named as PRPs for the site by the EPA. Additionally, Proler and this subsidiary have been named or identified as PRP's at several other sites. Proler included the probable costs associated with this site in the aforementioned reserve.

As part of the Proler acquisition, the Company became a fifty-percent owner of Hugo Neu-Proler Company (HNP). HNP has agreed, as part of its recent lease renewal with the Port of Los Angeles, to be responsible for a multi-year, phased remedial clean-up project involving certain environmental conditions on its scrap processing facility at its Terminal Island site in Los Angeles, California by the year 2001. Remediation will include limited excavation and treatment of contaminated soils, paving, installation of a stormwater management system, construction of a noise barrier and perimeter wall around the facility, and groundwater monitoring. The probable costs to remediate this property are included in the aforementioned reserve.

Note 6 - Income Taxes:

The provision for (benefit from) income taxes is as follows:

	August 31,		
	1997	1996	1995
Current:			
Federal	\$ 5,361	\$ 7,235	\$12,360
State	786	721	1,600
Deferred:			
Federal	4,199	1,678	(2,011)
State	600	372	(167)
	-----	-----	-----
	\$10,946	\$10,006	\$11,782
	=====	=====	=====

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Deferred tax assets and liabilities are as follows:

	August 31,	
	1997	1996
Segment held for sale	\$ 3,707	\$
Inventory valuation methods	3,380	1,035
Employee benefit accruals	3,137	1,607
State income tax and other	513	486
Net current deferred tax assets	\$ 10,737	\$ 3,128
Accelerated depreciation and basis differences	\$ 40,798	\$ 26,957
Environmental liabilities	(11,891)	(8,638)
Net operating loss carry forwards	(10,992)	
Other	(498)	(325)
	17,417	15,994
Deferred tax asset valuation allowance	10,992	
Net non-current deferred tax liabilities	\$ 28,409	\$ 15,994

The reasons for the difference between the effective income tax rate and the statutory federal income tax rate are as follows:

	August 31,		
	1997	1996	1995
Federal statutory rate	35%	35%	35%
Foreign sales corporation	(5)	(5)	(4)
State taxes and credits	3	2	3
Other	1	1	1
	--	--	--
	34%	33%	35%
	==	==	==

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

Note 7 - Related Party Transactions:

Certain shareholders of the Company own significant interest in, or are related to owners of, the entities discussed below. As such, these entities are considered related parties for financial reporting purposes.

Transactions Affecting Cost of Goods Sold and Other Operating Expenses

The Company charters several vessels from related companies to transport scrap metal to foreign markets. Charges incurred for these charters were \$9,296, \$7,943 and \$3,309 for 1997, 1996 and 1995, respectively. In 1993, the Company signed a five-year time-charter agreement for one vessel. The agreement guarantees the ship owner a residual market value of \$2,500 at the end of the time-charter. The Company entered into two additional seven-year time charters in May 1995. In August 1996, these two time charters were re-negotiated due to the condition of the vessels and lower charter rates experienced in the shipping industry resulting in a \$769 refund of time-charter expenses related to the first three fiscal quarters of 1996. This refund was recorded in the fourth quarter of 1996.

The Company purchased scrap metals from its joint venture operations totalling \$13,856, \$8,513 and \$7,704 in 1997, 1996 and 1995, respectively.

The Company leases certain land and buildings from a related real estate company under operating leases. The following table summarizes the lease terms, annual rents and future minimum rents:

Location: -----	Lease Expiration -----	Current Annual Rent -----
Scrap Operations:		
Portland facility and marine terminal	2063	\$1,056
Sacramento facility	2003	80
Administrative offices	2006	246

	Minimum Rents -----	Sublease Income -----	Net Minimum Rents -----
1998	\$ 1,382	\$ (38)	\$1,344
1999	1,294	(38)	1,256
2000	1,294	(38)	1,256
2001	1,294	(38)	1,256
2002	1,265		1,265
Thereafter	64,915		

The rent expense was \$1,351, \$1,274 and \$1,315 for 1997, 1996 and 1995, respectively.

The rents for Scrap Operations will be adjusted in 1999 based upon changes in the Consumer and the Producer Price Indices. Beginning in 2003 and every 15 years thereafter, the rent will be adjusted to then market rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

Transactions Affecting Selling and Administrative Expenses

The Company performs some administrative services and provides operation and maintenance of management information systems for certain related parties. These services are charged to the related parties based upon cost plus a 15% margin for overhead and profit. These administrative charges totalled \$1,046, \$816 and \$872 in 1997, 1996, and 1995, respectively.

Transactions Affecting Other Income (Expense)

The vessels discussed above are periodically sub-chartered to third parties. In this case, a related shipping agency company acts as the Company's agent in the collection of income and payment of expenses related to sub-charter activities. For the year ended August 31, 1997, charges incurred for these sub-charters aggregated \$871 offset by income of \$747. Charges incurred for these sub-charters totaled \$3,135 in fiscal 1996, net of a \$163 refund recorded in the fourth quarter, resulting from the re-negotiation of time-charter contracts previously discussed above. These charges were offset by income of \$3,157. There was no sub-charter activity in fiscal 1995.

In February 1996, the Company sold a parcel of land to a related real estate company. The Company received \$585,000, recognizing no gain or loss on the transaction.

Transactions Affecting Property, Plant & Equipment

From time to time, the law firm of Ball Janik LLP, of which director Robert S. Ball is a partner, provides legal services to the Company. Mr. Ball is a director, significant shareholder and the secretary of Electrical Construction Company (ECC), an electrical contractor, which has provided electrical construction services on the Company's new rolling mill. The Company paid ECC \$7,301 and \$1,256 in 1996 and 1995, respectively. No payments to ECC were made in fiscal 1997.

Note 8 - Employee Benefits:

In accordance with union agreements, the Company contributed to union pension plans \$2,164, \$1,782 and \$1,444, in 1997, 1996, and 1995, respectively. These are multi-employer plans and, consequently, the Company is unable to determine its relative portion of or estimate its future liability under the plans.

The Company has several defined contribution plans covering nonunion employees. The pension cost related to these plans totaled \$1,028, \$1,268 and \$935 for 1997, 1996, and 1995, respectively.

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

For some nonunion employees, the Company also maintains a defined benefit pension plan. The Company has funded the maximum contribution deductible for federal income tax purposes. The following table sets forth the plan's funded status at:

	August 31,	
	1997	1996
Actuarial present value of accumulated plan benefits:		
Vested	\$ 2,945	\$ 2,669
Non-vested	463	333
Accumulated benefit obligation	3,408	3,002
Effect of projected future compensation levels	678	544
Projected benefit obligation	4,086	3,546
Plan assets at fair value, primarily marketable securities	4,162	3,408
Plan assets greater (less) than projected benefit obligation	76	(138)
Unrecognized prior service costs	71	75
Unrecognized net (gain) loss	(395)	369
Net pension (liability) asset	\$ (248)	\$ 306

Components of the defined benefit net pension cost are as follows:

	August 31,		
	1997	1996	1995
Service costs for benefits earned during the year	\$ 529	\$ 367	\$ 280
Interest cost on projected benefit obligation	257	219	186
Actual return on plan assets	(299)	(248)	(192)
Net amortization and deferral	4	4	2
Net pension cost	\$ 491	\$ 342	\$ 276

Assumptions used each year in determining the defined benefit net pension cost are:

	1997	1996	1995
Weighted average discount rate	7.5%	7.5%	8.0%
Rate of increase in future compensation levels	4.5	4.5	4.5
Expected long-term rate of return on assets	9.0	9.0	8.0

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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During 1991, the Company adopted a nonqualified supplemental retirement plan for certain executives. A restricted trust fund has been established and invested in life insurance policies which can be used for plan benefits, but which are subject to claims of general creditors. The trust fund and deferred compensation expense are classified as other assets. The status of this plan is summarized as follows:

	August 31,		
	1997	1996	1995
Restricted trust fund	\$ 684	\$ 459	\$ 234
Deferred compensation expense	490	545	741
Long-term pension liability	1,343	1,249	1,308
Pension cost	149	136	149

Note 9 - Stock Incentive Plan:

In September 1993, the Company adopted a Stock Incentive Plan for employees, consultants and directors of the Company. The plan covers 1,200,000 shares of Class A common stock. All options have a ten-year term and become exercisable for 20% of the shares covered by the option on each of the first five anniversaries of the grant.

The Company records stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations. An alternative method of accounting exists under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) which requires the use of option valuation models; however, these models were not developed for use in valuing employee stock compensation awards. Under APB 25, because the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information for fiscal years 1997 and 1996 regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these awards was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for both fiscal years 1997 and 1996: risk-free interest rate of 6.6%, dividend yield of 1% and a weighted-average expected life of the options of 7.5 years. The weighted-average volatility factors of the expected market price of the Company's common stock were .43 and .46 for fiscal years 1997 and 1996, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The effects on results of operations and earnings per share is not expected to be indicative of the effects on results of operations or earnings per share in future years. The Company's pro forma information follows:

	Year Ended August 31,	
	1997	1996
Pro forma net income	\$20,945	\$20,736
Pro forma earnings per share	2.02	2.23

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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A summary of the Company's stock option activity and related information for the years ended August 31 is as follows:

	1997		1996		1995	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding-beginning of year	294,515	\$21.10	180,627	\$19.11	99,167	\$18.37
Options granted	136,713	\$25.00	113,888	\$24.25	81,460	\$20.00
Options canceled	(1,500)	\$24.25				
Outstanding - end of year	429,728	\$22.33	294,515	\$21.10	180,627	\$19.11
Exercisable at end of year	114,561		55,955		19,832	
Weighted-average fair value of options granted during year	\$ 14.11		\$ 14.37			

Exercise prices for options outstanding as of August 31, 1997 ranged from \$18 to \$25. The weighted-average remaining contractual life of those options is 8.4 years.

Note 10 - Segment Information:

The Company operates in two industry segments: scrap metal processing and recycling, and mini-mill steel production. The business segments operate in Oregon, Washington and California.

Intersegment sales, which are primarily from the Scrap Operations to the Steel Operations, are transferred at a negotiated market rate per ton and are eliminated in consolidation. Segment income from operations does not include general corporate expenses or income taxes.

The Scrap Operations segment sells to foreign customers, primarily in Asia, resulting in export sales of \$117,861, \$137,701 and \$140,046 in 1997, 1996 and 1995, respectively. In 1996, sales to one customer accounted for 12% of consolidated revenues.

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 10 - Segment Information (continued):

	August 31,		
	1997	1996	1995
Net revenues:			
Scrap operations	\$236,392	\$233,484	\$244,129
Steel operations	183,740	160,019	141,469
Intersegment sales	(58,379)	(54,151)	(54,887)
	<u>\$361,753</u>	<u>\$339,352</u>	<u>\$330,711</u>
Income from operations:			
Scrap operations	\$ 27,399	\$ 29,587	\$ 26,282
Steel operations	5,493	6,303	9,252
Income from joint ventures	6,876	3,291	2,511
Corporate	(7,162)	(6,239)	(5,478)
	<u>\$ 32,606</u>	<u>\$ 32,942</u>	<u>\$ 32,567</u>
Total assets:			
Scrap operations	\$208,266	\$133,324	\$122,545
Steel operations	194,649	191,823	147,059
Corporate	25,071	12,342	10,701
	<u>\$427,986</u>	<u>\$337,489</u>	<u>\$280,305</u>
Depreciation and amortization expense:			
Scrap operations	\$ 7,573	\$ 6,891	\$ 5,036
Steel operations	10,464	6,907	6,401
Corporate	228	196	161
	<u>\$ 18,265</u>	<u>\$ 13,994</u>	<u>\$ 11,598</u>
Capital expenditures:			
Scrap operations	\$ 6,295	\$ 7,695	\$ 5,375
Steel operations	8,834	36,323	25,638
Corporate	357	571	145
	<u>\$ 15,486</u>	<u>\$ 44,589</u>	<u>\$ 31,158</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 11 - Summarized Financial Information of Joint Ventures:

A summary of combined operations of joint ventures in which the Company is a partner is as follows:

	August 31,	
	1997	1996
Current assets	\$ 78,711	\$ 9,526
Noncurrent assets	66,482	24,527
	<u>\$ 145,193</u>	<u>\$ 34,053</u>
	=====	=====
Current liabilities	\$ 39,231	\$ 5,613
Noncurrent liabilities	6,146	7,874
Minority interest	1,509	1,762
Partners' equity	98,307	18,804
	<u>\$ 145,193</u>	<u>\$ 34,053</u>
	=====	=====

	August 31,		
	1997	1996	1995
Revenues	\$352,515	\$ 43,883	\$ 57,377
	=====	=====	=====
Income from operations	\$ 14,399	\$ 7,691	\$ 5,910
	=====	=====	=====
Net income before taxes	\$ 14,156	\$ 6,636	\$ 5,019
	=====	=====	=====

The Company performs some administrative services and provides operation and maintenance of management information systems to some of these joint ventures. These administrative charges totaled \$214, \$184 and \$185 in 1997, 1996, and 1995, respectively.

Advances from and to joint venture partnerships, included in noncurrent assets and liabilities above, respectively, bear interest at the prime rate less one percent. Although these advances are collectible on demand, management does not intend to request payment in the foreseeable future. The Company earned interest income of \$580, \$309 and \$385 from these advances in 1997, 1996 and 1995, respectively.

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Note 12 - Acquisition of Proler International Corp.:

On November 29, 1996, PIC Acquisition Corp. (PIC), a wholly owned subsidiary of the Company, acquired 4,079,000 shares of common stock of Proler International Corp. (Proler), representing approximately 86% of the outstanding shares of Proler, for \$9 cash per share pursuant to a tender offer for all of the outstanding shares of common stock of Proler. Subsequent to November 30, 1996, PIC purchased an additional 342,600 shares, thereby increasing its ownership to approximately 94% of the outstanding Proler shares. On December 6, 1996, the Company completed the merger of PIC with Proler and, as a result, Proler became a wholly-owned subsidiary of the Company. As a result of the merger, all remaining outstanding shares of Proler common stock were converted into the right to receive the same \$9 per share in cash paid in the tender offer. The Company borrowed funds to pay for the Proler shares under its existing credit facilities.

The Company has accounted for this acquisition using the purchase method. Accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based on their fair values as of the effective date of the acquisition.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and Proler as though the acquisition had occurred at the beginning of the periods shown.

	For the Year Ended August 31,	
	1997	1996
	(in thousands)	
Revenues	\$ 364,899 =====	\$ 353,096 =====
Net income	\$ 14,606 =====	\$ 11,650 =====
Earnings per share	\$ 1.41 =====	\$ 1.25 =====

During the year ended August 31, 1997, Proler recorded a provision for environmental liabilities of \$8.6 million.

These pro forma results have been prepared for comparative purposes only and include certain adjustments to give effect for the acquisition, together with related income tax effects. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect at the beginning of the periods presented or of future results of operations of the consolidated entities.

In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$100,685
Cash paid for the stock	42,456

Liabilities assumed	\$ 58,229 =====

SCHNITZER STEEL INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)

Note 13 - Acquisition of Manufacturing Management, Inc. (MMI):

On March 29, 1995, the Company purchased all of the outstanding shares of stock of MMI for \$66,000 in cash. The Company borrowed all of the funds for the acquisition from its banks under a \$100,000 revolving line of credit (Note 4). Control of MMI's board of directors was transferred to the Company on March 17, 1995, the designated effective date of the purchase.

The Company has accounted for this acquisition using the purchase method. Accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values as of the effective date of the acquisition. Goodwill aggregating \$42,017 was recorded for the difference between the acquisition cost and the fair values of the assets acquired and liabilities assumed. The Company is amortizing goodwill over forty years using the straight-line method.

The consolidated results of operations include MMI's results of operations beginning on March 17, 1995.

The following supplemental pro forma information presents the combined results of operations of the Company and MMI as though the acquisition had occurred at the beginning of the periods shown. However, the pro forma information is not necessarily indicative of the results which would have resulted had the acquisition occurred at the beginning of the periods presented.

	For the Year Ended August 31, 1995 -----
Revenues	\$392,031 =====
Net income	\$ 22,601 =====
Earnings per share	\$ 2.86 =====

In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 95,958
Cash paid for the stock	66,000 -----
Liabilities assumed	\$ 29,958 =====

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Note 14 - Quarterly Financial Data (Unaudited):

	Fiscal Year 1997			
	First	Second	Third	Fourth
	-----	-----	-----	-----
Net revenues	\$ 82,700	\$ 76,599	\$ 89,297	\$113,157
Income from operations	4,553	2,767	10,899	14,387
Net income	2,781	1,378	8,424	8,642
Income per common share	.27	.13	.81	.84

	Fiscal Year 1996			
	First	Second	Third	Fourth
	-----	-----	-----	-----
Net revenues	\$ 71,591	\$ 82,721	\$ 86,950	\$ 98,090
Income from operations	8,575	8,209	8,031	8,129
Net income	5,078	5,400	4,551	5,755
Income per common share	.64	.65	.44	.55

The results for the fourth quarter of 1996 include a refund of time-charter expenses of \$769 and sub-charter expenses of \$163 related to the first three fiscal quarters of 1996. See Note 7.

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FORM 10-K

PART II (CONTINUED)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors is included under "Election of Directors" in the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference. Information with respect to executive officers of the Company is included under Item 4(a) of Part I of this Report. Information required by Item 405 of Regulation S-K is included under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is included under "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is included under "Voting Securities and Principal Shareholders" in the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is included under "Certain Transactions" in the Company's Proxy Statement for its 1998 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) 1. The following financial statements are filed as part of this report:

See Index to Consolidated Financial Statements and Schedule on page 27 of this Report.

2. The following financial statement schedule is filed as part of this report:

See Index to Consolidated Financial Statements and Schedule on page 27 of this Report.

Schedules other than those listed on the Index to Consolidated Financial Statements and Schedule are omitted as the information is either not applicable or is not required.

3. Exhibits:

- 2.1 Agreement and Plan of Merger dated September 15, 1996 between the Registrant and Proler International Corp. Incorporated by reference to Exhibit (c) (1) to Registrants' Schedule 14D-1 filed September 20, 1996.
- 3.1 1993 Restated Articles of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, Registration No. 33-69352 (the Form S-1).
- 3.2 Restated Bylaws of the Registrant. Filed as Exhibit 3.2 to Registrant's Form 10-K for the fiscal year ended August 31, 1995, and incorporated herein by reference.
- 9.1 Schnitzer Steel Industries, Inc. Voting Trust and Buy-Sell Agreement dated March 31, 1991. Incorporated by reference to Exhibit 9.1 to the Form S-1.
- 9.2 First Amendment to Voting Trust and Buy-Sell Agreement dated July 15, 1991. Incorporated by reference to Exhibit 9.2 to the Form S-1.
- 9.3 Second Amendment to Voting Trust and Buy -Sell Agreement dated November 30, 1996.
- 10.1 Lease Agreement dated September 1, 1988 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Corporate Headquarters. Incorporated by reference to Exhibit 10.1 to the Form S-1.
- 10.2 Second Amendment of Lease dated as of October 18, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.5 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.

- 10.3 Second Extension of Lease dated May 28, 1996 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.1 to the Registrant's Form 10-Q for the quarterly period ended May 31, 1996, and incorporated herein by reference.
- 10.4 Lease Agreement dated March 24, 1980 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Corporate Headquarters. Incorporated by reference to Exhibit 10.2 to the Form S-1.
- 10.5 Third Amendment of Lease dated May 29, 1996 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.2 to the Registrant's Form 10-Q for the quarterly period ended May 31, 1996, and incorporated herein by reference.
- 10.6 Fourth Amendment of Lease dated March 31, 1997 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters.
- 10.7 Lease Agreement dated March 1, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.3 to Registrants Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.8 Amendment of lease dated March 31, 1997 between Schnitzer Investment Corp. and the Registrant relating to the Corporate Headquarters.
- 10.9 Lease Agreement dated April 20, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.4 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.10 Lease Agreement dated February 18, 1997 between Schnitzer Investment Corp and the Registrant relating to the Corporate Headquarters.
- 10.11 Lease Agreement dated September 1, 1988 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Portland scrap operations. Incorporated by reference to Exhibit 10.3 to the Form S-1.
- 10.12 Second Amendment to Lease dated as of October 28, 1994 between Schnitzer Investment Corp. and the Registrant, relating to Portland scrap operations. Filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.13 Lease Agreement dated September 1, 1988 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Sacramento scrap operation. Incorporated by reference to Exhibit 10.4 to the Form S-1.
- 10.14 Amendment of lease dated as of February 8, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Sacramento scrap operations. Filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.15 Second Amended Shared Services Agreement dated as of September 13, 1993 between the Registrant and certain entities controlled by shareholders of the Registrant. Incorporated by reference to Exhibit 10.5 to the Form S-1.
- 10.16 Amendment dated as of September 1, 1994 to Second Amended Shared Services Agreement between the Registrant and certain entities controlled by shareholders of the Registrant. Filed as Exhibit 10.6 to Registrant's Form 10-K for the fiscal year ended August 31, 1995, and incorporated herein by reference.

- 10.17 Uniform Time Charter dated May 27, 1993 between the Registrant and Trans-Pacific Shipping Co. Incorporated by reference to Exhibit 10.6 to the Form S-1.
- 10.18 Uniform Time Charter dated May 9, 1995 between the Registrant and Trans-Pacific Shipping Co. Filed as Exhibit 10.10 to Registrant's Form 10-K for the fiscal year ended August 31, 1995, and incorporated herein by reference.
- 10.19 Addendum No. 3 to M/V Jade Pacific Uniform time Charter Agreement dated August 28, 1996 between the Registrant and Trans-Pacific Shipping Co. Filed as Exhibit 10.16 to Registrant's Form 10-K for the fiscal year ended August 31, 1996, and incorporated by reference.
- 10.20 Uniform Time Charter dated May 9, 1995 between the Registrant and Trans-Pacific Shipping Co. Filed as Exhibit 10.11 to Registrant's Form 10-K for the fiscal year ended August 31, 1995, and incorporated herein by reference.
- 10.21 Addendum No. 3 to M/V Jade Orient Uniform Time Charter Agreement dated August 28, 1996 between the Registrant and Trans-Pacific Shipping Co. Filed as Exhibit 10.18 to Registrant's Form 10-K for the fiscal year ended August 31, 1996, and incorporated by reference.
- *10.22 1993 Stock Incentive Plan of the Registrant.
- *10.23 Supplemental Executive Retirement Bonus Plan of the Registrant. Incorporated by reference to Exhibit 10.8 to the Form S-1.
- *10.24 Assistant Secretary's Certificate dated November 25, 1995 amending the Supplemental Executive Retirement Bonus Plan of the Registrant. Filed as Exhibit 10.6 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- *10.25 Deferred Bonus Agreement between the Company and an executive officer. Filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended May 31, 1996, and incorporated herein by reference.
- 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Independent Accountants.
- 24.1 Powers of Attorney
- 27 Financial Data Schedule

* Management contract or compensatory plan or arrangement

- - - - -

(b) Reports on Form 8-K

No reports on Form 8-K were required to be filed by the Registrant during the fourth quarter of the fiscal year ended August 31, 1997.

SCHNITZER STEEL INDUSTRIES, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCHNITZER STEEL INDUSTRIES, INC.

Dated: November 18, 1997

By: /s/ BARRY A. ROSEN

Barry A. Rosen
Vice President --
Finance and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on November 18, 1997 in the capacities indicated.

Signature	Title
- - - - -	-----

Principal Executive Officer:

*LEONARD SCHNITZER - - - - - Leonard Schnitzer	Chairman of the Board, Chief Executive Officer and Director
--	--

Principal Financial Officer:

/s/ BARRY A. ROSEN - - - - - Barry A. Rosen	Vice President -- Finance and Treasurer
---	--

Principal Accounting Officer:

*JAMES W. CRUCKSHANK - - - - - James W. Cruckshank	Controller and Assistant Treasurer
--	---------------------------------------

Directors:

*CAROL S. LEWIS Director

Carol S. Lewis

*KENNETH M. NOVACK Director

Kenneth M. Novack

*ROBERT W. PHILIP Director

Robert W. Philip

*JEAN S. REYNOLDS Director

Jean S. Reynolds

*DORI SCHNITZER Director

Dori Schnitzer

*GARY SCHNITZER	Director

Gary Schnitzer	

*MANUEL SCHNITZER Director

Manuel Schnitzer

*ROBERT S. BALL Director

Robert S. Ball

[illegible]

*RALPH R. SHAW Director

Ralph R. Shaw

*By: /s/ BARRY A. ROSEN

Attorney-in-fact, Barry A. Rosen

Report of Independent Accountants
on Financial Statement Schedule

To the Board of Directors
of Schnitzer Steel Industries, Inc.

Our audits of the consolidated financial statements referred to in our report dated September 26, 1997, appearing on page 28 of the 1997 Annual Report to Shareholders of Schnitzer Steel Industries, Inc. (which report and consolidated financial statements are located in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, the Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE LLP

Portland, Oregon
September 26, 1997

SCHNITZER STEEL INDUSTRIES, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED AUGUST 31, 1997, 1996, AND 1995
(in thousands)

Description	Balance at Beginning of Period	Additions		Deductions	Recoveries	Balance at End of Period
		Charged to Expense	Charged to Other Accts.			
Year Ended August 31, 1997						
Allowance for doubtful accounts	\$ 420	\$ 63	\$ 68(1)	\$ (27)	\$	\$ 524
Lower-of-cost-or-market inventory reserve	2			(2)		
Year Ended August 31, 1996						
Allowance for doubtful accounts	797	229		(618)	12	420
Lower-of-cost-or-market inventory reserve	2					2
Year Ended August 31, 1995						
Allowance for doubtful accounts	398	244	155(2)			797
Lower-of-cost-or-market inventory reserve	62	(60)				2

(1) Represents the allowance for doubtful accounts associated with Proler International Corp., which the Company purchased in November 1996.

(2) Represents the allowance for doubtful accounts associated with Manufacturing Management, Inc. which the Company purchased in March 1995.

SCHNITZER STEEL INDUSTRIES, INC.
INDEX TO EXHIBITS

- 2.1 Agreement and Plan of Merger dated September 15, 1996 between the Registrant and Proler International Corp. Incorporated by reference to Exhibit (c) (1) to Registrant's Schedule 14D-1 filed September 20, 1996.
- 3.1 1993 Restated Articles of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, Registration No. 33-69352 (the Form S-1).
- 3.2 Restated Bylaws of the Registrant. Filed as Exhibit 3.2 to Registrant's Form 10-K for the fiscal year ended August 31, 1995, and incorporated herein by reference.
- 9.1 Schnitzer Steel Industries, Inc. Voting Trust and Buy-Sell Agreement dated March 31, 1991. Incorporated by reference to Exhibit 9.1 to the Form S-1.
- 9.2 First Amendment to Voting Trust and Buy-Sell Agreement dated July 15, 1991. Incorporated by reference to Exhibit 9.2 to the Form S-1.
- 9.3 Second Amendment to Voting Trust and Buy-Sell Agreement dated November 30, 1996.
- 10.1 Lease Agreement dated September 1, 1988 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Corporate Headquarters. Incorporated by reference to Exhibit 10.1 to the Form S-1.
- 10.2 Second Amendment of Lease dated as of October 18, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.5 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.3 Second Extension of Lease dated May 28, 1996 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.1 to the Registrant's Form 10-Q for the quarterly period ended May 31, 1996, and incorporated herein by reference.
- 10.4 Lease Agreement dated March 24, 1980 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Corporate Headquarters. Incorporated by reference to Exhibit 10.2 to the Form S-1.

- 10.5 Third Amendment of Lease dated May 29, 1996 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.2 to the Registrant's Form 10-Q for the quarterly period ended May 31, 1996, and incorporated herein by reference.
- 10.6 Fourth Amendment of Lease dated March 31, 1997 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters.
- 10.7 Lease Agreement dated March 1, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.3 to Registrants Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.8 Amendment of lease dated March 31, 1997 between Schnitzer Investment Corp. and the Registrant relating to the Corporate Headquarters.
- 10.9 Lease Agreement dated April 20, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Corporate Headquarters. Filed as Exhibit 10.4 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.10 Lease Agreement dated February 18, 1997 between Schnitzer Investment Corp. and the Registrant relating to the Corporate Headquarters
- 10.11 Lease Agreement dated September 1, 1988 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Portland scrap operations. Incorporated by reference to Exhibit 10.3 to the Form S-1.
- 10.12 Second Amendment to Lease dated as of October 28, 1994 between Schnitzer Investment Corp. and the Registrant, relating to Portland scrap operations. Filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.13 Lease Agreement dated September 1, 1988 between Schnitzer Investment Corp. and the Registrant, as amended, relating to the Sacramento scrap operation. Incorporated by reference to Exhibit 10.4 to the Form S-1.
- 10.14 Amendment of lease dated as of February 8, 1995 between Schnitzer Investment Corp. and the Registrant, relating to the Sacramento scrap operations. Filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- 10.15 Second Amended Shared Services Agreement dated as of September 13, 1993 between the Registrant and certain entities controlled by shareholders of the Registrant. Incorporated by reference to Exhibit 10.5 to the Form S-1.

- 10.16 Amendment dated as of September 1, 1994 to Second Amended Shared Services Agreement between the Registrant and certain entities controlled by shareholders of the Registrant. Filed as Exhibit 10.6 to Registrant's Form 10-K for the fiscal year ended August 31, 1995, and incorporated herein by reference.
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- *10.23 Supplemental Executive Retirement Bonus Plan of the Registrant. Incorporated by reference to Exhibit 10.8 to the Form S-1.
- *10.24 Assistant Secretary's Certificate dated November 25, 1995 amending the Supplemental Executive Retirement Bonus Plan of the Registrant. Filed as Exhibit 10.6 to Registrant's Form 10-Q for the quarterly period ended November 30, 1995, and incorporated herein by reference.
- *10.25 Deferred Bonus Agreement between the Company and an executive officer. Filed as Exhibit 10.3 to Registrant's Form 10-Q for the quarterly period ended May 31, 1996, and incorporated herein by reference
- 21.1 Subsidiaries of Registrant.
- 23.1 Consent of Independent Accountants
- 24.1 Powers of Attorney.
- 27 Financial Data Schedule

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

THIS SECOND AMENDMENT is entered into effective November 30, 1996, among Schnitzer Steel Industries, Inc., an Oregon corporation (the "Company"), the undersigned beneficial owners of Class B Common Stock of the Company (the "Shareholders") and CAROL S. LEWIS, DORI SCHNITZER, GARY SCHNITZER AND RITA S. PHILIP (the "Trustees").

1. The Agreement is amended to include the following new provision:

2.3 Conversion of Shares for Purposes of Charitable Donations. A Shareholder may convert any number of shares of that Shareholder's Class B Common Stock into Class A Common Stock, without complying with the provisions of Sections 2.2.2 or 2.2.3 of this Agreement; provided, the Class A Common Stock received in the conversion is immediately thereafter transferred to any organization which is exempt from taxation under Internal Revenue Code ss.501(c)(3); provided further, that no such conversion will be permitted if, following the conversion, the remaining number of shares of Class B Common Stock would be less than twenty-five percent of the sum of the number of outstanding shares of Class B Common Stock and Class A Common Stock.

2. Except as specifically amended by this Second Amendment, the Agreement shall remain unmodified and in full force and effect.

3. This Second Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the date written above.

THE COMPANY

SCHNITZER STEEL INDUSTRIES, INC.

/s/ R.W. PHILIP

By: Robert W. Philip
Its: President

THE TRUSTEES

MANUEL SCHNITZER FAMILY GROUP

/s/ CAROL S. LEWIS

Carol S. Lewis

MORRIS SCHNITZER FAMILY GROUP

/s/ DORI SCHNITZER

Dori Schnitzer

GILBERT SCHNITZER FAMILY GROUP

/s/ GARY SCHNITZER

Gary Schnitzer

LEONARD SCHNITZER FAMILY GROUP

/s/ RITA S. PHILIP

Rita S. Philip

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THE SHAREHOLDERS

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

MANUEL SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Manuel Schnitzer and
Edith Schnitzer, Trustees
U/A/D February 8, 1989,
with Manuel Schnitzer

/s/ EDITH SCHNITZER

Edith Schnitzer, as Trustee

/s/ MANUEL SCHNITZER

Manuel Schnitzer, as Trustee

Edith Schnitzer and
Manuel Schnitzer, Trustees

U/A/D February 8, 1989,
with Edith Schnitzer

/s/ EDITH SCHNITZER

Edith Schnitzer, as Trustee

/s/ MANUEL SCHNITZER

Manuel Schnitzer, as Trustee

Manuel Schnitzer and
Edith Schnitzer, Trustees
U/A/D February 8, 1989,
with Manuel Schnitzer; and
Edith Schnitzer and Manuel
Schnitzer, Trustees U/A/D
February 8, 1989, with Edith
Schnitzer, each trust as a
tenant in common

/s/ EDITH SCHNITZER

Edith Schnitzer, as Trustee

/s/ MANUEL SCHNITZER

Manuel Schnitzer, as Trustee

/s/ CAROL S. LEWIS

Carol S. Lewis

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
CAROL LEWIS, Trustees for
Carol Lewis, et al, under Trust
Agreement dated January 30, 1970

FIRST INTERSTATE BANK OF
OREGON, N.A., as Trustee
NKA Wells Fargo Bank, N.A.

/s/ CAROL S. LEWIS

Carol S. Lewis, as Trustee

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

MANUEL SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

/s/ SCOTT LEWIS

Scott Lewis

/s/ SCOTT LEWIS

Scott Lewis, as Custodian
under the Oregon Uniform
Transfers to Minors Act,
F/B/O Zachary Lewis

/s/ LARRY LEWIS

Larry Lewis

/s/ KATHLEEN LEWIS

Kathleen Lewis

/s/ MARILYN S. EASLY

Marilyn S. Easly

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
MARILYN EASLY, Trustees for
Marilyn Easly, et al, under Trust
Agreement dated January 30, 1970

FIRST INTERSTATE BANK OF
OREGON, N.A., as Trustee
NKA Wells Fargo Bank, N.A.

/s/ MARILYN EASLY

Marilyn Easly, as Trustee

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

/s/ DAVID S. EASLY

David S. Easly

/s/ DANIELLE C. EASLY

Danielle C. Easly

/s/ SEAN M. EASLY

Sean M. Easly

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

MORRIS SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Mildred Schnitzer and
Dori Schnitzer, Trustees,
Trust A U/W/O Morris Schnitzer,
dated March 12, 1980, F/B/O
Mildred Schnitzer

/s/ MILDRED SCHNITZER

/s/ DORI SCHNITZER

Mildred Schnitzer, as Trustee

Dori Schnitzer, as Trustee

Mildred Schnitzer and
Dori Schnitzer, Trustees
U/A/D April 17, 1989,
with Mildred Schnitzer

/s/ MILDRED SCHNITZER

/s/ DORI SCHNITZER

Mildred Schnitzer, as Trustee

Dori Schnitzer, as Trustee

Jean S. Reynolds and Dori Schnitzer,
Trustees U/A with Jean S. Reynolds
dated November 30, 1992

/s/ JEAN S. REYNOLDS

/s/ DORI SCHNITZER

Jean S. Reynolds, as Trustee

Dori Schnitzer, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
JEAN S. REYNOLDS, Trustees
for Jean S. Reynolds, et al,
under Trust Agreement dated
January 30, 1970

FIRST INTERSTATE BANK OF
OREGON, N.A., as Trustee
NKA Wells Fargo Bank, N.A.

/s/ JEAN S. REYNOLDS

/s/ MARCIA L. JORY, VP

Jean S. Reynolds, as Trustee

By: Marcia L. Jory, VP
Its: Vice President & Area Manager

/s/ SAMANTHA DAVIS

Samantha Paige Davis

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

MORRIS SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Mildred Schnitzer and
Jean S. Reynolds, Trustees,
Trust B U/W/O Morris Schnitzer,
dated March 12, 1980, F/B/O
Samantha Paige Davis

/s/ JEAN S. REYNOLDS

/s/ MILDRED SCHNITZER

Jean S. Reynolds, as Trustee

Mildred Schnitzer, as Trustee

/s/ JEAN S. REYNOLDS

Jean S. Reynolds, as Custodian
under the California Uniform
Transfers to Minors Act, F/B/O
Alan Scott Davis

Mildred Schnitzer and Jean S.
Reynolds, Trustees, Trust B
U/W/O Morris Schnitzer,
dated March 12, 1980,
F/B/O Alan Scott Davis

/s/ JEAN S. REYNOLDS

/s/ MILDRED SCHNITZER

Jean S. Reynolds, as Trustee

Mildred Schnitzer, as Trustee

/s/ N. DICKSON DAVIS

N. Dickson Davis

/s/ DORI SCHNITZER

Dori Schnitzer

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
DORI SCHNITZER, Trustees,
for Dori Schnitzer, et al,
under Trust Agreement dated
January 30, 1970

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ DORI SCHNITZER

/s/ MARCIA L. JORY, VP

Dori Schnitzer, as Trustee

By: Marcia L. Jory
Title: Vice President &
Area Manager

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

MORRIS SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Dane M. Brown Irrevocable Trust,
Susan Schnitzer, Trustee
U/A/D 4/10/95

/s/ SUSAN SCHNITZER

Susan Schnitzer, as Trustee

/s/ SUSAN SCHNITZER

Susan Schnitzer

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
SUSAN DEE SCHNITZER, Trustees
for Susan Dee Schnitzer, et al,
under Trust Agreement dated
January 30, 1970

/s/ SUSAN SCHNITZER

Susan Schnitzer, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

/s/ SUSAN SCHNITZER

Susan Schnitzer, as Custodian
under the Oregon Uniform Transfers
to Minors Act, F/B/O
Matthew S. Goodman

/s/ SUSAN SCHNITZER

Susan Schnitzer, as Custodian
under the Oregon Uniform Transfers
to Minors Act, F/B/O
Whitney M. Goodman

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

MORRIS SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

/s/ SUSAN SCHNITZER

Susan Schnitzer, as Custodian
under the Oregon Uniform Transfers
to Minors Act, F/B/O
Stephen S. Goodman

/s/ DORI SCHNITZER

Dori Schnitzer, Trustee of
Schnitzer Trust 2-3-2 dated
December 27, 1991, F/B/O
Matthew S. Goodman

/s/ DORI SCHNITZER

Dori Schnitzer, Trustee of
Schnitzer Trust 2-3-3 dated
December 27, 1991, F/B/O
Whitney M. Goodman

/s/ DORI SCHNITZER

Dori Schnitzer, Trustee of
Schnitzer Trust 2-3-4 dated
December 27, 1991, F/B/O
Stephen S. Goodman

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

GILBERT SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Gilbert Schnitzer and
Thelma S. Schnitzer, Trustees
U/A/D February 7, 1989, with
Gilbert Schnitzer

/s/ GILBERT SCHNITZER

/s/ THELMA S. SCHNITZER

Gilbert Schnitzer, as Trustee

Thelma S. Schnitzer, as Trustee

Thelma S. Schnitzer and
Gilbert Schnitzer, Trustees
U/A/D February 7, 1989, with
Thelma S. Schnitzer

/s/ GILBERT SCHNITZER

/s/ THELMA S. SCHNITZER

Gilbert Schnitzer, as Trustee

Thelma S. Schnitzer, as Trustee

/s/ GARY SCHNITZER

Gary Schnitzer

FIRST INTERSTATE BANK OF
OREGON, N.A. and GARY
SCHNITZER, Trustees for
Gary Schnitzer, et al, under
Trust Agreement dated
January 30, 1970

FIRST INTERSTATE BANK
OF OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ GARY SCHNITZER

/s/ MARCIA L. JORY, VP

Gary Schnitzer, as Trustee

By: Marcia L. Jory
Title: Vice President &
Area Manager

/s/ GREGORY SCHNITZER

Gregory Schnitzer

/s/ GARY SCHNITZER

Gary Schnitzer, Trustee
U/A/D January 2, 1974,
F/B/O Gregory Schnitzer

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

GILBERT SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

/s/ GARY SCHNITZER, Trustee

Gary Schnitzer, Trustee
U/A/D December 12, 1986,
F/B/O Gregory Schnitzer

Deborah S. Novack and
Kenneth M. Novack, Trustees
U/A/D 7/31/91, fbo
Deborah S. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, as Trustee

/s/ K. M. NOVACK

Kenneth M. Novack, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A. and DEBORAH NOVACK,
Trustees for Deborah Novack,
et al, under Trust Agreement
dated January 30, 1970

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, NA

/s/ DEBORAH S. NOVACK

Deborah S. Novack, as Trustee

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory, VP
Title: Vice President &
Area Manager

Kenneth M. Novack and
Deborah S. Novack, Trustees
U/A/D 7/31/91, fbo
Kenneth M. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, as Trustee

/s/ K. M. NOVACK

Kenneth M. Novack, as Trustee

/s/ MELANIE NOVACK

Melanie A. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, Trustee
U/A/D July 1, 1974,
F/B/O Melanie A. Novack

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

GILBERT SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

/s/ DEBORAH S. NOVACK

Deborah S. Novack, Trustee
U/A/D December 12, 1986,
F/B/O Melanie A. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, Trustee
U/A/D January 2, 1976,
F/B/O Melanie A. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, Trustee
U/A/D December 12, 1986,
F/B/O Kevin P. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, Trustee
U/A/D April 30, 1976,
F/B/O Kevin P. Novack

/s/ DEBORAH S. NOVACK

Deborah S. Novack, as Custodian
under the Oregon Uniform
Transfers to Minors Act,
F/B/O Kevin P. Novack

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

LEONARD SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Leonard Schnitzer and
Lois T. Schnitzer, Trustees
U/A/D May 3, 1989, with
Leonard Schnitzer

/s/ LEONARD SCHNITZER

/s/ LOIS SCHNITZER

Leonard Schnitzer, as Trustee

Lois T. Schnitzer, as Trustee

Lois T. Schnitzer and
Leonard Schnitzer, Trustees
U/A/D May 3, 1989, with
Lois T. Schnitzer

/s/ LEONARD SCHNITZER

/s/ LOIS SCHNITZER

Leonard Schnitzer, as Trustee

Lois T. Schnitzer, as Trustee

Lois T. Schnitzer and
Leonard Schnitzer, Trustees
U/A/D May 3, 1989, with
Lois T. Schnitzer; and
Leonard Schnitzer and Lois T.
Schnitzer, Trustees U/A/D
May 3, 1989, with Leonard
Schnitzer, each trust to take
as a tenant in common

/s/ LEONARD SCHNITZER

/s/ LOIS SCHNITZER

Leonard Schnitzer, as Trustee

Lois T. Schnitzer, as Trustee

Rita S. Philip and Robert W.
Philip, as Co-Trustees under
Trust Agreement with Rita S.
Philip dated 4/21/93

/s/ RITA S. PHILIP

/s/ ROBERT W. PHILIP

Rita S. Philip, as Trustee

Robert W. Philip, as Trustee

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

LEONARD SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

/s/ MICHELE PHILIP

Michele Babette Philip

Rita S. Philip, Family
Trustee and Jill Schnitzer
Edelson, Independent Trustee
U/A/D December 22, 1994, F/B/O
Michele Babette Philip

/s/ RITA S. PHILIP

Rita S. Philip, as Trustee

/s/ JILL SCHNITZER

Jill Schnitzer Edelson, Trustee

Rita S. Philip, Family
Trustee and Jill Schnitzer
Edelson, Independent Trustee
U/A/D December 22, 1994, F/B/O
Joshua Henry Philip

/s/ RITA S. PHILIP

Rita S. Philip, as Trustee

/s/ JILL SCHNITZER

Jill Schnitzer Edelson, Trustee

/s/ GAYLE S. ROMAIN

Gayle S. Romain

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
GAYLE ROSENCRANTZ, Trustees
for Gayle Rosencrantz, et al,
under Trust Agreement
dated January 30, 1970

FIRST INTERSTATE BANK
OR OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ GAYLE S. ROMAIN

Gayle S. Romain

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

/s/ LAURA H. ROSENCRANTZ

Laura H. Rosencrantz

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

LEONARD SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Gayle S. Romain, Family
Trustee and Mardi S. Schnitzer,
Independent Trustee U/A/D
December 22, 1994, F/B/O
Laura H. Rosencrantz

/s/ GAYLE S. ROMAIN

Gayle S. Romain, as Trustee

/s/ MARDI S. SCHNITZER

Mardi S. Schnitzer, as Trustee

/s/ BRYAN L. ROSENCRANTZ

Bryan L. Rosencrantz

Gayle S. Romain, Family
Trustee and Mardi S. Schnitzer,
Independent Trustee U/A/D
December 22, 1994, F/B/O
Bryan L. Rosencrantz

/s/ GAYLE S. ROMAIN

Gayle S. Romain, as Trustee

/s/ MARDI S. SCHNITZER

Mardi S. Schnitzer, as Trustee

/s/ SANDRA LEE SCHNITZER

Sandra Lee Schnitzer

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
SANDRA SCHNITZER, Trustees for
Sandra Schnitzer, et al,
under Trust Agreement
dated January 30, 1970

/s/ SANDRA SCHNITZER

Sandra Schnitzer, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

LEONARD SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

/s/ MARDI S. SCHNITZER

Mardi S. Schnitzer

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
Mardi Schnitzer Lippman,
Trustees for Mardi Schnitzer
Lippman, et al,
under Trust Agreement
dated January 30, 1970

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ MARDI S. SCHNITZER

Mardi S. Schnitzer, as Trustee

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

Mardi S. Schnitzer, Family
Trustee, and Rita S. Philip
and Gayle S. Romain, Independent
Trustees U/A/D December 22,
1994, F/B/O David R. Lippman

/s/ MARDI S. SCHNITZER

Mardi S. Schnitzer, as Trustee

/s/ RITA S. PHILIP

Rita S. Philip, as Trustee

/s/ GAYLE S. ROMAIN

Gayle S. Romain, as Trustee

Mardi S. Schnitzer, Family
Trustee, and Rita S. Philip
and Gayle S. Romain, Independent
Trustees U/A/D December 22,
1994, F/B/O Marc A. Lippman

/s/ MARDI S. SCHNITZER

Mardi S. Schnitzer, as Trustee

/s/ RITA S. PHILIP

Rita S. Philip, as Trustee

/s/ GAYLE S. ROMAIN

Gayle S. Romain, as Trustee

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

LEONARD SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Jill Schnitzer Edelson
and Richard H. Edelson,
Trustees U/A/D 2/22/95,
F/B/O Jill Schnitzer Edelson

/s/ JILL SCHNITZER EDELSON

Jill Schnitzer Edelson, as Trustee

/s/ RICHARD H. EDELSON

Richard H. Edelson, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
LOIS SCHNITZER, Trustees for
Jill Sophia Schnitzer, et al,
under Trust Agreement
dated January 30, 1970

/s/ LOIS SCHNITZER

Lois Schnitzer, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

Jill Schnitzer Edelson, Family
Trustee and Dina Evan Schnitzer,
Independent Trustee U/A/D
December 22, 1994, F/B/O
Brooke Danielle Edelson

/s/ JILL SCHNITZER EDELSON

Jill Schnitzer Edelson, as Trustee

/s/ DINA EVAN SCHNITZER

Dina Evan Schnitzer, as Trustee

Jill Schnitzer Edelson, Family
Trustee and Dina Evan Schnitzer,
Independent Trustee U/A/D
December 22, 1994, F/B/O
Lauren Rachelle Edelson

/s/ JILL SCHNITZER EDELSON

Jill Schnitzer Edelson, as Trustee

/s/ DINA EVAN SCHNITZER

Dina Evan Schnitzer, as Trustee

SCHNITZER STEEL INDUSTRIES, INC.
SECOND AMENDMENT TO VOTING TRUST AND BUY-SELL AGREEMENT

LEONARD SCHNITZER FAMILY GROUP--SHAREHOLDER SIGNATURE PAGE

Dina Evan Schnitzer
Revocable Trust U/A/D 8/19/94,
Leonard E. Schnitzer, Gayle S.
Romain and Dina Evan Schnitzer,
Collectively as Trustee

/s/ LEONARD E. SCHNITZER

Leonard E. Schnitzer, as Trustee

/s/ DINA EVAN SCHNITZER

Dina Evan Schnitzer, as Trustee

/s/ GAYLE S. ROMAIN

Gayle S. Romain, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A. (formerly First
National Bank of Oregon) and
LOIS SCHNITZER, Trustees for
Dina Evan Schnitzer, et al,
under Trust Agreement
dated January 30, 1970

/s/ LOIS SCHNITZER

Lois Schnitzer, as Trustee

FIRST INTERSTATE BANK OF
OREGON, N.A.
NKA Wells Fargo Bank, N.A.

/s/ MARCIA L. JORY, VP

By: Marcia L. Jory
Title: Vice President & Area Manager

FOURTH AMENDMENT OF LEASE

THIS FOURTH AMENDMENT OF LEASE is written and made in duplicate on the 31st day of March, 1997, by and between SCHNITZER INVESTMENT CORP. (the "Landlord") and SCHNITZER STEEL INDUSTRIES, INC., Successor in Interest to Schnitzer Steel Products Co. (the "Tenant"). Each may be referred to from time to time as a "Party" and collectively as the "Parties".

RECITALS

WHEREAS, under a certain indenture of Lease (the "Lease") dated March 24, 1980, as extended by the Extension of Lease dated April 19, 1985, an Amendment to Lease dated June 4, 1987, a Second Extension of Lease dated April 15, 1988, a Third Extension of Lease dated September 1, 1988, a Second Amendment of Lease dated April 1, 1991, a Fourth Extension of Lease dated August 27, 1993, and a Third Amendment of Lease dated May 29, 1996, which are, with the Lease, incorporated by this reference, the Landlord leased certain real property to the Tenant in Portland, Multnomah County, Oregon, as described in the Lease to the Tenant, and;

WHEREAS, the Parties now wish to amend the Lease to provide for decreased square footage effective January 1, 1997, and it is the purpose of this Fourth Amendment of Lease to set forth all of the terms and conditions of the Parties' agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained in this Fourth Amendment of Lease, the Parties covenant and agree as follows:

1. Premises: Effective January 1, 1997, Paragraph 1. Premises of the Lease is hereby amended to provide for 5,043 square feet of office space.
2. Rent: Effective January 1, 1997, Paragraph 3. Rent of the Lease is hereby amended to provide for equal monthly installments of \$5,253.00 each.
3. Proportionate Share: Effective January 1, 1997, Tenant's proportionate share of operating expense increases as set forth under Paragraph 6 of the Lease shall decrease to 30%.
4. Other Terms: Except as they may be modified by this Fourth Amendment of Lease, all the other terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the Landlord and Tenant have signed this Fourth Amendment of Lease as of the date first hereinabove written.

Landlord

Tenant:

SCHNITZER INVESTMENT CORP.

SCHNITZER STEEL INDUSTRIES, INC.
Successor in Interest to Schnitzer
Steel Products Co.

By: /s/ Linda Wakefield

Title: Vice President

By: /s/ J.W. Cruckshank

Title: Corporate Controller

AMENDMENT OF LEASE

THIS AMENDMENT OF LEASE is written and made in duplicate on the 31st day of March, 1997, by and between SCHNITZER INVESTMENT CORP. (the "Landlord") and SCHNITZER STEEL INDUSTRIES, INC. (the "Tenant"). Each may be referred to from time to time as a "Party" and collectively as the "Parties".

RECITALS

WHEREAS, under a certain indenture of Lease (the "Lease") dated March 1, 1995, the Landlord leased certain real property at 3330 N.W. Yeon Avenue to Tenant in Portland, Multnomah County, Oregon, as described in the Lease, and;

WHEREAS, the Lease provides for the Premises to be approximately 1,390 square feet of office space and the Parties now wish to amend the Lease to provide for a rental adjustment due to a change in the square footage of the Premises; and

WHEREAS, it is the purpose of this Amendment of Lease to set forth all of the terms and conditions of the Parties' agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained in this Amendment of Lease, the Parties covenant and agree as follows:

1. Premises: The Lease is hereby amended to provide that the Premises consist of approximately 2,001 square feet of office space.
2. Rent: Effective January 1, 1997, the Lease is hereby amended to provide for equal monthly installments of \$2,084.38 each.
3. Proportionate Share: Effective January 1, 1997, Tenant's proportionate share of operating expense increases as set forth under Paragraph 19.1 of the Lease shall increase to 11.9%.
4. Other Terms: Except as they may be modified by this Amendment of Lease, all the other terms and conditions of the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the Landlord and Tenant have signed this Amendment of Lease as of the date first hereinabove written.

Landlord

Tenant:

SCHNITZER INVESTMENT CORP.

SCHNITZER STEEL INDUSTRIES,

By: /s/ LINDA M. WAKEFIELD

By: /s/ J.W. CRUCKSHANK

Title: Vice President

Title: Corporate Controller

This lease, made and entered into at Portland, Oregon, this 18th day of February, 1997 by and between

LANDLORD: SCHNITZER INVESTMENT CORPORATION
and
TENANT: SCHNITZER STEEL INDUSTRIES

Landlord hereby leases to Tenant the following:

commercial space totalling 4,655 square feet of office space (the Premises) in 3330 N.W. Yeon (the building) at Yeon Business Center, Portland, Oregon, for a term commencing, March 1, 1997 and continuing through February 28, 2002 at a Monthly Base Rental as follows:

\$4,848.96

Rent is payable in advance on the 1st day of each month commencing, March 1, 1997.

Landlord and Tenant covenant and agree as follows:

- 1.1 Delivery of Possession.
Should Landlord be unable to deliver possession of the Premises on the date fixed for the commencement of the term, commencement will be deferred and Tenant shall owe no rent until notice from Landlord tendering possession to Tenant. If possession is not so tendered within 90 days following commencement of the term, then Tenant may elect to cancel this lease by notice to Landlord within 10 days following expiration of the 90-day period. Landlord shall have no liability to Tenant for delay in delivering possession, nor shall such delay extend the term of this lease in any manner.
- 2.1 Rent Payment.
Tenant shall pay the Base Rent for the Premises and any additional rent provided herein without deduction or offset. Rent for any partial month during the lease term shall be prorated to reflect the number of days during the month that Tenant occupies the Premises. Additional rent means amounts determined under Section 19 of this lease and any other sums payable by Tenant to Landlord under this lease. Rent not paid when due shall bear interest at the rate of one-and-one-half percent per month until paid. Landlord may at its option impose a late charge of \$.05 for each \$1 of rent for rent payments made more than 10 days late in lieu of interest for the first month of delinquency, without waiving any other remedies available for default. Failure to impose a late charge shall not be a waiver of Landlord's rights hereunder.
- 3.1 Lease Consideration.

Page 1

Upon execution of the lease Tenant has paid the Base Rent for the first full month of the lease term for which rent is payable and in addition has paid the sum of N/A -

as lease consideration. Landlord may apply the lease consideration to pay the cost of performing any obligation which Tenant fails to perform within the time required by this lease, but such application by Landlord shall not be the exclusive remedy for Tenant's default. If the lease consideration is applied by Landlord, Tenant shall on demand pay the sum necessary to replenish the lease consideration to its original amount. To the extent not applied by Landlord to cure defaults by Tenant, the lease consideration shall be applied against the rent payable for the last month of the term. The lease consideration shall not be refundable.

4. Use.
Tenant shall use the Premises as business offices for Human Resources, Benefits and Payroll and for no other purpose without Landlord's written consent. In connection with its use, Tenant shall at its expense promptly comply with all applicable laws, ordinances, rules and regulations of any public authority and shall not annoy, obstruct, or interfere with the rights of other tenants of the Building. Tenant shall create no nuisance nor allow any objectionable fumes, noise, or vibrations to be emitted from the Premises. Tenant shall not conduct any activities that will increase Landlord's insurance rates for any portion of the Building or that will in any manner degrade or damage the reputation of the Building.
4. Equipment.
Tenant shall install in the Premises only such office equipment as is customary for general office use and shall not overload the floors or electrical circuits of the Premises or Building or alter the plumbing or wiring of the Premises or Building. Landlord must approve in advance the location of and manner of installing any wiring or electrical, heat generating or communication equipment or exceptionally heavy articles. All telecommunications equipment, conduit, cables and wiring and any additional air conditioning required because of heat generating equipment or special lighting installed by Tenant shall be installed and operated at Tenant's expense.
- 4.3 Signs
No signs, awnings, antennas, or other apparatus shall be painted on or attached to the Building or anything placed on any glass or woodwork of

the Premises or positioned so as to be visible from outside the Premises without Landlord's written approval as to design, size, location, and color. All signs installed by Tenant shall comply with Landlord's standards for signs and all applicable codes and all signs and sign hardware shall be removed upon termination of this lease with the sign location restored to its former state unless Landlord elects to retain all or any portion thereof.

5.1 Utilities and Services.

Landlord will furnish water, electricity and elevator service and, during the normal Building hours of 8:00 AM to 6:00 PM, Monday through Friday, except holidays, will furnish heat and air conditioning (if the Building is air conditioned). Janitorial service will be provided in accordance with the regular schedule of the Building, which schedule and service may change from time to time. Tenant shall comply with all government laws or regulations regarding the use or reduction of use of utilities on the Premises. Interruption of services or utilities shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, render Landlord liable to Tenant for damages, or relieve Tenant from performance of Tenant's obligations under this lease. Landlord shall take all reasonable steps to correct any interruptions in service. Electrical

service furnished will be 110 volts unless different service already exists in the Premises. Tenant shall provide its own surge protection for power furnished to computers.

5.2 Extra Usage.

If Tenant uses excessive amounts of utilities or services of any kind because of operation outside of normal Building hours, high demands from office machinery and equipment, nonstandard lighting, or any other cause, Landlord may impose a reasonable charge for supplying such extra utilities or services, which charge shall be payable monthly by Tenant in conjunction with rent payments. In case of dispute over any extra charge under this paragraph, Landlord shall designate a qualified independent engineer whose decision shall be conclusive on both parties. Landlord and Tenant shall each pay one-half of the cost of such determination.

6.1 Maintenance and Repair.

Landlord shall have no liability for failure to perform required maintenance and repair unless written notice of such maintenance or repair is given by Tenant and Landlord fails to commence efforts to remedy the problem in a reasonable time and manner. Landlord shall have the right to erect scaffolding and other apparatus necessary for the purpose of making repairs, and Landlord shall have no liability for interference with Tenant's use because of repairs and installations. Tenant shall have no claim against Landlord for any interruption or reduction of services or interference with Tenant's occupancy, and no such interruption or reduction shall be construed as a constructive or other eviction of Tenant. Repair of damage caused by negligent or intentional acts or breach of this lease by Tenant, its employees or invitees shall be at Tenant's expense.

6.2 Alterations

Tenant shall not make any alterations, additions, or improvements to the Premises, change the color of the interior, or install any wall or floor covering without Landlord's prior written consent. Any such improvements, alterations, wiring, cables or conduit installed by Tenant shall at once become part of the Premises and belong to Landlord except for removable machinery and unattached movable trade fixtures. Landlord may at its option require that Tenant remove any improvements, alterations, wiring, cables or conduit installed by Tenant and restore the Premises to the original condition upon termination of this lease. Landlord shall have the right to approve the contractor used by Tenant for any work in the Premises, and to post notices of nonresponsibility in connection with work being performed by Tenant in the Premises.

7.1 Indemnity.

Tenant shall not allow any liens to attach to the Building or Tenant's interest in the Premises as a result of its activities. Tenant shall indemnify and defend Landlord and its managing agents from any claim, liability, damage, or loss occurring on the Premises, arising out of any activity by Tenant, its agents, or invitees or resulting from Tenant's failure to comply with any term of this lease. Neither Landlord nor its managing agent shall have any liability to Tenant because of loss or damage to Tenant's property or for death or bodily injury caused by the acts or omissions of other Tenants of the Building, or by third parties (including criminal acts).

7.2 Insurance.

Tenant shall carry liability insurance with limits of not less than One Million Dollars (\$1,000,000) combined single limit bodily injury and property damage which insurance shall have an endorsement naming Landlord and Landlord's managing agent, if any, as an additional insured and covering the liability insured under paragraph 7.1 of this lease. Tenant shall furnish a certificate evidencing such insurance which shall state that the coverage shall not be cancelled or materially changed without 10 days advance notice to Landlord and Landlord's managing

agent, if any. A renewal certificate shall be furnished at least 10 days prior to expiration of any policy.

8.1 Fire or Casualty.

"Major Damage" means damage by fire or other casualty to the Building or the Premises which causes the Premises or any substantial portion of the Building to be unusable, or which will cost more than 25 percent of the pre-damage value of the Building to repair, or which is not covered by insurance. In case of Major Damage, Landlord may elect to terminate this lease by notice in writing to Tenant within 30 days after such date. If this lease is not terminated following Major Damage, or if damage occurs which is not Major Damage, Landlord shall promptly restore the Premises to the condition existing just prior to the damage. Tenant shall promptly restore all damage to tenant improvements or alterations installed by Tenant or pay the cost of such restoration to Landlord if Landlord elects to do the restoration of such improvements. Rent shall be reduced from the date of damage until the date restoration work being performed by Landlord is substantially complete, with the reduction to be in proportion to the area of the Premises not usable by Tenant.

8.2 Waiver of Subrogation.

Tenant shall be responsible for insuring its personal property and trade fixtures located on the Premises and any alterations or tenant improvements it has made to the Premises. Neither Landlord, its managing agent nor Tenant shall be liable to the other for any loss or damage caused by water damage, sprinkler leakage, or any of the risks that are or could be covered by a standard all risk insurance policy with an extended coverage endorsement, or for any business interruption, and there shall be no subrogated claim by one party's insurance carrier against the other party arising out of any such loss.

9.1 Eminent Domain.

If a condemning authority takes title by eminent domain or by agreement in lieu thereof to the entire Building or a portion sufficient to render the Premises unsuitable for Tenant's use, then either party may elect to terminate this lease effective on the date that possession is taken by the condemning authority. Rent shall be reduced for the remainder of the term in an amount proportionate to the reduction in area of the Premises caused by the taking. All condemnation proceeds shall belong to Landlord, and Tenant shall have no claim against Landlord or the condemnation award because of the taking.

10.1 Assignment & Subletting.

This lease shall bind and inure to the benefit of the parties, their respective heirs, successors, and assigns, provided that Tenant shall not assign its interest under this lease or sublet all or any portion of the Premises without first obtaining Landlord's consent in writing. This provision shall apply to all transfers by operation of law including but not limited to mergers and changes in control of Tenant. No assignment shall relieve Tenant of its obligation to pay rent or perform other obligations required by this lease, and no consent to one assignment or subletting shall be a consent to any further assignment or subletting. Landlord shall not unreasonably withhold its consent to any assignment or subletting provided the effective rental paid by the subtenant or assignee is not less than the current scheduled rental rate of the Building for comparable space and the proposed Tenant is compatible with Landlord's normal standards for the Building. If Tenant proposes a subletting or assignment to which Landlord is required to consent under this paragraph, Landlord shall have the option of terminating this lease and dealing directly with the proposed subtenant or assignee, or any third party. If an assignment or subletting is permitted, any cash profit, or the net value of any other consideration received by Tenant as a result of such

transaction shall be paid to Landlord promptly following its receipt by Tenant. Tenant shall pay any costs incurred by Landlord in connection with a request for assignment or subletting, including reasonable attorneys' fees.

11.1 Default.

Any of the following shall constitute a default by Tenant under this lease:

(a) Tenant's failure to pay rent or any other charge under this lease within 10 days after it is due, or failure to comply with any other term or condition within 20 days following written notice from Landlord specifying the noncompliance. If such noncompliance cannot be cured within the 20-day period, this provision shall be satisfied if Tenant commences correction within such period and thereafter proceeds in good faith and with reasonable diligence to effect compliance as soon as possible. Time is of the essence of this lease.

(b) Tenant's insolvency, business failure or assignment for the benefit of its creditors, Tenant's commencement of proceedings under any provision of any bankruptcy or insolvency law or failure to obtain dismissal of any petition filed against it under such laws within the time required to answer; or the appointment of a receiver for Tenant's properties.

(c) Assignment or subletting by Tenant in violation of paragraph 10.

1.

(d) Vacation or abandonment of the Premises without the written consent of Landlord or failure to occupy the Premises within 20 days after notice tendering possession.

11.2 Remedies for Default.

In case of default as described in paragraph 11.1 Landlord shall have the right to the following remedies which are intended to be cumulative and in addition to any other remedies provided under applicable law:

(a) Landlord may at its option terminate the lease by notice to Tenant. With or without termination, Landlord may retake possession of the Premises and may use or relet the Premises without accepting a surrender or waiving the right to damages. Following such retaking of possession, efforts by Landlord to relet the Premises shall be sufficient if Landlord follows its usual procedures for finding tenants for the space at rates not less than the current rates for other comparable space in the Building. If Landlord has other vacant space in the Building, prospective tenants may be placed in such other space without prejudice to Landlord's claim to damages or loss of rentals from Tenant.

(b) Landlord may recover all damages caused by Tenant's default which shall include an amount equal to rentals lost because of the default, lease commissions paid for this lease, and the unamortized cost of any tenant improvements installed by Landlord to meet Tenant's special requirements. Landlord may sue periodically to recover damages as they occur throughout the lease term, and no action for accrued damages shall bar a later action for damages subsequently accruing. Landlord may elect in any one action to recover accrued damages plus damages attributable to the remaining term of the lease. Such damages shall be measured by the difference between the rent under this lease and the reasonable rental value of the Premises for the remainder of the term, discounted to the time of judgement at the prevailing interest rate on judgements.

(c) Landlord may make any payment or perform any obligation which Tenant has failed to perform, in which case Landlord shall be entitled to recover from Tenant upon demand all amounts so expended, plus interest from the date of the expenditure at the rate of one-and-one-half percent per month. Any such payment or performance by Landlord shall not waive Tenant's default.

12.1 Surrender.

On expiration or early termination of this lease Tenant shall deliver all keys to Landlord and surrender the Premises vacuumed, swept, and free of debris and in the same condition as at the

commencement of the term subject only to reasonable wear from ordinary use. Tenant shall remove all of its furnishings and trade fixtures that remain its property and restore all damage resulting from such removal. Failure to remove shall be an abandonment of the property, and Landlord may dispose of it in any manner without liability. If Tenant fails to vacate the Premises when required, including failure to remove all its personal property, Landlord may elect either: (i) to treat Tenant as a tenant from month to month, subject to the provisions of this lease except that rent shall be one-and-one-half times the total rent being charged when the lease term expired; or (ii) to eject Tenant from the Premises and recover damages caused by wrongful holdover.

13.1 Regulations.

Landlord shall have the right but shall not be obligated, to make, revise and enforce regulations or policies consistent with this lease for the purpose of promoting safety, health (including regulation or prohibition of smoking), order, economy, cleanliness, and good service to all tenants of the Building. All such regulations and policies shall be complied with as if part of this lease.

14.1 Access.

During times other than normal Building hours Tenant's officers and employees or those having business with Tenant may be required to identify themselves or show passes in order to gain access to the Building. Landlord shall have no liability for permitting or refusing to permit access by anyone. Landlord shall have the right to enter upon the Premises at any time by passkey or otherwise to determine Tenant's compliance with this lease, to perform necessary services, maintenance and repairs or alterations to the Building or the Premises, or to show the Premises to any prospective tenant or purchasers. Except in case emergency such entry shall be at such times and in such manner as to minimize interference with the reasonable business use of the Premises by Tenant.

14.2 Furniture and Bulky Articles.

Tenant shall move furniture and bulky articles in and out of the Building or make independent use of the elevators only at times approved by Landlord following at least 24 hours written notice to Landlord of the intended move. Landlord will not unreasonably withhold its consent under this paragraph.

15.1 Notices.

Notices between the parties relating to this lease shall be in writing, effective when delivered, or if mailed, effective on the second day following mailing, postage prepaid, to the address for ' the party stated in this lease or to such other address as either party may specify by notice to the other. Notice to Tenant may always be delivered to the Premises. Rent shall be payable to Landlord at the same address and in the same manner, but shall be considered paid only when received.

16.1 Subordination.

This lease shall be subject to and subordinate to any mortgages, deeds of trust, or land sale contracts (hereafter collectively referred to as encumbrances) now existing against the Building. At Landlord's option this lease shall be subject and subordinate to any future encumbrance hereafter placed against the Building (including the underlying land) or any modifications of existing encumbrances, and Tenant shall execute such documents as may reasonably be requested by Landlord or the holder of the encumbrance to evidence this subordination.

16.2 Transfer of Building.

If the Building is sold or otherwise transferred by Landlord or any successor, Tenant shall attorn to the purchaser or transferee and recognize it as the lessor under this lease, and, provided the purchaser or transferee assumes all obligations hereunder, the transferor shall have no further liability hereunder.

16.2 Estoppels

Either party will within 10 days after notice from the other execute, acknowledge and deliver to the other party a certificate certifying whether or not this lease has been modified and is in full force and effect; whether there are any modifications or alleged breaches by the other party; the dates to which rent has been paid in advance, and the amount of any security deposit or prepaid rent; and any other facts that may reasonably be requested. Failure to deliver the certificate within the specified time shall be conclusive upon the party of whom the certificate was requested that the lease is in full force and effect and has not been modified except as may be represented by the party requesting the certificate. If requested by the holder of any encumbrance, or any ground lessor, Tenant will agree to give such holder or lessor notice of and an opportunity to cure any default by Landlord under this lease.

17.1 Attorneys' Fees.

In any litigation arising out of this lease, the prevailing party shall be entitled to recover attorneys' fees at trial and on any appeal. If Landlord incurs attorneys' fees because of a default by Tenant, Tenant shall pay all such fees whether or not litigation is filed.

18.1 Quiet Enjoyment.

Landlord warrants that so long as Tenant complies with all terms of this lease it shall be entitled to peaceable and undisturbed possession of the Premises free from any eviction or disturbance by Landlord. Neither Landlord nor its managing agent shall have any liability to Tenant for loss or damages arising out of the acts, including criminal acts, of other tenants of the Building or third parties, nor any liability for any reason which exceeds the value of its interest in the Building.

19.1 Additional Rent: Tax Adjustment.

Whenever for any July 1 - June 30 tax year the real property taxes levied against the Building and its underlying land exceed those levied for the 1996-1997 tax year, then the monthly rental for the next succeeding calendar year shall be increased by one-twelfth of such tax increase times Tenant's proportionate share. "Real property taxes" as used herein means all taxes and assessments of any public authority against the Building and the land on which it is located, the cost of contesting any tax and any form of fee or charge imposed on Landlord as a direct consequence of owning or leasing the Premises, including but not limited to rent taxes, gross receipt taxes, leasing taxes, or any fee or charge wholly or partially in lieu of or in substitution for ad valorem real property taxes or assessments, whether now existing or hereafter enacted. If any portion of the Building is occupied by a tax-exempt tenant so that the Building has a partial tax exemption under ORS 307.12 or a similar statute, then real property taxes shall mean taxes computed as if such partial exemption did not exist. If a separate assessment or identifiable tax increase arises because of improvements to the Premises, then Tenant shall pay 100 percent of such increase.

19.2 Tenant's Proportionate Share.

"Tenant's proportionate share" as used herein means the area of the Premises, divided by the total area of office space in the Building, with area determined using one of the methods of building measurement defined by the Building Owners and Managers Association (BOMA). Tenant's proportionate share as of the lease commencement date shall be 27.5 percent.

- 19.4 Additional Rent: Operating Expense Adjustment.
Tenant shall pay as additional rent its proportionate share, as defined in paragraph 19.2, of the amount by which operating expenses for the Building increase over those experienced by Landlord during the calendar year 1997 (base year). Effective January 1 of each year Landlord shall estimate the amount by which operating expenses are expected to increase, if any, over those incurred in the base year. Monthly rental for that year shall be increased by one-twelfth of Tenant's share of the estimated increase. Following the end of each calendar year, Landlord shall compute the actual increase in operating expenses and bill Tenant for any deficiency or credit Tenant with any excess collected. As used herein "operating expenses" shall mean all costs of operating and maintaining the Building as determined by standard real estate accounting practice, including, but not limited to: all water and sewer charges; the cost of natural gas and electricity provided to the Building; janitorial and cleaning supplies and services; administration costs and management fees; superintendent fees; security services, if any; insurance premiums; licenses; permits for the operation and maintenance of the Building and all of its component elements and mechanical systems; the annual amortized capital improvement cost (amortized over such a period as Landlord may select but not shorter than the period allowed under the Internal Revenue Code and at a current market interest rate) for any capital improvements to the Building required by any governmental authority or those which have a reasonable probability of improving the operating efficiency of the Building.
- 20.1 Complete Agreement.
This lease and the attached Exhibits and Schedules if any, constitute the entire agreement of the parties and supersede all prior written and oral agreements and representations. Neither Landlord nor Tenant is relying on any representations other than those expressly set forth herein.
- 20.2 Space Leased as Is
Unless otherwise stated in this Lease, the Premises are leased as in the condition now existing with no alterations or other work to be performed by Landlord.
- 20.3 Captions.
The titles to the paragraphs of this lease are descriptive only and are not intended to change or influence the meaning of any paragraph or to be part of this lease.
- 20.4 Nonwaiver.

Failure by Landlord to promptly enforce any regulation, remedy or right of any kind under this Lease shall not constitute a waiver of the same and such right or remedy may be asserted at any time after Landlord becomes entitled to the benefit thereof notwithstanding delay in enforcement.

- 20.5 Exhibits.
The following Exhibits are attached hereto and incorporated as a part of this lease:

IN WITNESS WHEREOF, the duly authorized representatives of the parties have executed this lease as of the day and the year first written above.

LANDLORD: SCHNITZER INVESTMENT CORP. By /s/ LINDA M. WAKEFIELD

Address for notices: P.O. Box 10047 Title: Vice President

Portland, OR 97296

TENANT: SCHNITZER STEEL INDUSTRIES By /s/ J.W. CRUCKSHANK

Address for notices: P.O. Box 10047 Title:

Portland, OR 97296

SCHNITZER STEEL INDUSTRIES, INC.
1993 STOCK INCENTIVE PLAN

1. Purpose. The purpose of this 1993 Stock Incentive Plan (the "Plan") is to enable Schnitzer Steel Industries, Inc. (the "Company") to attract and retain the services of (1) selected employees, officers and directors of the Company or of any subsidiary of the Company and (2) selected nonemployee consultants and advisors to the Company.

2. Shares Subject to the Plan. Subject to adjustment as provided below and in paragraph 13, the shares to be offered under the Plan shall consist of Class A Common Stock of the Company, and the total number of shares of Class A Common Stock that may be issued under the Plan shall not exceed 1,200,000 shares. The shares issued under the Plan may be authorized and unissued shares or reacquired shares. If an option, stock appreciation right or performance unit granted under the Plan expires, terminates or is cancelled, the unissued shares subject to such option, stock appreciation right or performance unit shall again be available under the Plan. If shares sold or awarded as a bonus under the Plan are forfeited to the Company or repurchased by the Company, the number of shares forfeited or repurchased shall again be available under the Plan.

3. Effective Date and Duration of Plan.

(a) Effective Date. The Plan shall become effective when adopted by the Board of Directors; provided, however, that prior to shareholder approval of the Plan, any awards shall be subject to and conditioned on approval of the Plan by a majority of the votes cast at a shareholders meeting at which a quorum is present. Options, stock appreciation rights and performance units may be granted and shares may be awarded as bonuses or sold under the Plan at any time after the effective date and before termination of the Plan.

(b) Duration. The Plan shall continue in effect until all shares available for issuance under the Plan have been issued and all restrictions on such shares have lapsed. The Board of Directors may suspend or terminate the Plan at any time except with respect to options, performance units and shares subject to restrictions then outstanding under the Plan. Termination shall not affect any outstanding options, any right of the Company to repurchase shares or the forfeitability of shares issued under the Plan.

4. Administration. The Plan shall be administered by a committee of the Board of Directors of the Company (the "Committee"), which shall determine and designate from time to time the individuals to whom awards shall be made, the amount of the awards, and the other terms and conditions of the awards. Subject to the provisions of the Plan, the Committee may from time to time adopt and amend rules and regulations relating to administration of the Plan, advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction

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applicable to shares (except those restrictions imposed by law) and make all other determinations in the judgment of the Committee necessary or desirable for the administration of the Plan. The interpretation and construction of the provisions of the Plan and related agreements by the Committee shall be final and conclusive. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it shall deem expedient to carry the Plan into effect, and it shall be the sole and final judge of such expediency.

5. Types of Awards; Eligibility. The Committee may, from time to time, take the following actions, separately or in combination, under the Plan: (i) grant Incentive Stock Options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), as provided in paragraphs 6(a) and 6(b); (ii) grant options other than Incentive Stock Options ("Non-Statutory Stock Options") as provided in paragraphs 6(a) and 6(c); (iii) award stock bonuses as provided in paragraph 7; (iv) sell shares subject to restrictions as provided in paragraph 8; (v) grant stock appreciation rights as provided in paragraph 9; (vi) grant cash bonus rights as provided in paragraph 10; (vii) grant performance units as provided in paragraph 11 and (viii) grant foreign qualified awards as provided in paragraph 12. Any such awards may be made to employees, including employees who are officers or directors, and to other individuals described in paragraph 1 who the Committee believes have made or will make an important contribution to the Company or its subsidiaries; provided, however, that only employees of the Company shall be eligible to receive Incentive Stock Options under the Plan. The Committee shall select the individuals to whom awards shall be made and shall specify the action taken with respect to each individual to whom an award is made. At the discretion of the Committee, an individual may be given an election to surrender an award in exchange for the grant of a new award. No employee may be granted options or stock appreciation rights under the Plan for more than 100,000 shares of Class A Common Stock in any calendar year.

6. Option Grants.

(a) General Rules Relating to Options.

(i) Terms of Grant. The Committee may grant options under the Plan. With respect to each option grant, the Committee shall determine the number of shares subject to the option, the option price, the period of the option, the time or times at which the option may be exercised and whether the option is an Incentive Stock Option or a Non-Statutory Stock Option. At the time of the grant of an option or at any time thereafter, the Committee may provide that an optionee who exercised an option with Class A Common Stock of the Company shall automatically receive a new option to purchase additional shares equal to the number of shares surrendered and may specify the terms and

conditions of such new options.

(ii) Exercise of Options. Except as provided in paragraph 6(a)(iv) or as determined by the Committee, no option granted under the Plan may be exercised unless at the time of such exercise the optionee is employed by or in the service of the Company or any

subsidiary of the Company and shall have been so employed or provided such service continuously since the date such option was granted. Absence on leave or on account of illness or disability under rules established by the Committee shall not, however, be deemed an interruption of employment or service for this purpose. Unless otherwise determined by the Committee, vesting of options shall not continue during an absence on leave (including an extended illness) or on account of disability. Except as provided in paragraphs 6(a)(iv) and 13, options granted under the Plan may be exercised from time to time over the period stated in each option in such amounts and at such times as shall be prescribed by the Committee, provided that options shall not be exercised for fractional shares. Unless otherwise determined by the Committee, if the optionee does not exercise an option in any one year with respect to the full number of shares to which the optionee is entitled in that year, the optionee's rights shall be cumulative and the optionee may purchase those shares in any subsequent year during the term of the option.

(iii) Nontransferability. Except as provided below, each stock option granted under the Plan by its terms shall be nonassignable and nontransferable by the optionee, either voluntarily or by operation of law, and each option by its terms shall be exercisable during the optionee's lifetime only by the optionee. A stock option may be transferred by will or by the laws of descent and distribution of the state or country of the optionee's domicile at the time of death. A Non-Statutory Stock Option shall also be transferable pursuant to a qualified domestic relations order as defined under the Code or Title I of the Employee Retirement Income Security Act. The Committee may, in its discretion, authorize all or a portion of a Non-Statutory Stock Option to be on terms which permit transfer by the optionee to (A) the spouse, children or grandchildren of the optionee, including stepchildren and adopted children ("Immediate Family Members"), (B) a trust or trusts for the exclusive benefit of Immediate Family Members, or (C) a partnership or limited liability company in which Immediate Family Members are the only partners or members, provided that (X) there may be no consideration for any transfer, (Y) the stock option agreement pursuant to which the options are granted or an amendment thereto must expressly provide for transferability in a manner consistent with this paragraph, and (Z) subsequent transfers of transferred options shall be prohibited except by will or by the laws of descent and distribution. Following any transfer, options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of paragraphs 6(a)(v) and 13 the term "optionee" shall be deemed to refer to the transferee. The continued employment requirement of paragraph 6(a)(ii) and the events of termination of employment of paragraph 6(a)(iv) shall continue to be applied with respect to the original optionee, and following the termination of employment of the original optionee the options shall be exercisable by the transferee only to the extent, and for the periods specified, and all other references to employment, termination of employment, life or death of the optionee, shall continue to be applied with respect to the original optionee.

(iv) Termination of Employment or Service.

(A) General Rule. Unless otherwise determined by the Committee, in the event the employment or service of the optionee with the Company or a subsidiary terminates for any reason other than because of physical disability, death or retirement as provided in subparagraphs 6(a)(iv)(B), (C) and (D), the option may be exercised at any time prior to the expiration date of the option or the expiration of 30 days after the date of such termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of such termination.

(B) Termination Because of Total Disability. Unless otherwise determined by the Committee, in the event of the termination of employment or service because of total disability, the option may be exercised at any time prior to the expiration date of the option or the expiration of 12 months after the date of such termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of such termination. The term "total disability" means a mental or physical impairment which is expected to result in death or which has lasted or is expected to last for a continuous period of 12 months or more and which causes the optionee to be unable, in the opinion of the Company and two independent physicians, to perform his or her duties as an employee, director, officer or consultant of the Company and to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the Company and the two independent physicians have furnished their opinion of total disability to the Company.

(C) Termination Because of Death. Unless otherwise determined by the Committee, in the event of the death of an optionee while employed by or providing service to the Company or a subsidiary, the option may be exercised at any time prior to the expiration date of the option or the expiration of 12 months after the date of such death, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of such termination and only by the person or persons to whom such optionee's rights under the option shall pass by the optionee's will or by the laws of descent and distribution of the state or country of domicile at the time of death.

(D) Termination Because of Retirement. Unless otherwise determined by the Committee, in the event of the termination of employment or service because of (1) normal retirement after reaching age 65, (2) early retirement after reaching age 55 and completing 10 years of service, or (3) early retirement after completing 30 years of service without regard to age, the option may be exercised at any time prior to the expiration date of the option or the expiration of 12 months after the date of such termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of such termination.

(E) Amendment of Exercise Period Applicable to Termination. The Committee, at the time of grant or at any time thereafter, may extend the 30-day and 12-

month exercise periods any length of time not later than the original expiration date of the option, and may increase the portion of an option that is exercisable, subject to such terms and conditions as the Committee may determine.

(F) Failure to Exercise Option. To the extent that the option of any deceased optionee or of any optionee whose employment or service terminates is not exercised within the applicable period, all further rights to purchase shares pursuant to such option shall cease and terminate.

(v) Purchase of Shares. Unless the Committee determines otherwise, shares may be acquired pursuant to an option granted under the Plan only upon receipt by the Company of notice in writing from the optionee of the optionee's intention to exercise, specifying the number of shares as to which the optionee desires to exercise the option and the date on which the optionee desires to complete the transaction, and if required in order to comply with the Securities Act of 1933, as amended, containing a representation that it is the optionee's present intention to acquire the shares for investment and not with a view to distribution. Unless the Committee determines otherwise, on or before the date specified for completion of the purchase of shares pursuant to an option, the optionee must have paid the Company the full purchase price of such shares in cash (including, with the consent of the Committee, cash that may be the proceeds of a loan from the Company) or, with the consent of the Committee, in whole or in part, in Class A Common Stock of the Company valued at fair market value, restricted stock, performance units or other contingent awards denominated in either stock or cash, deferred compensation credits, promissory notes and other forms of consideration. The fair market value of Class A Common Stock provided in payment of the purchase price shall be the closing price of the Class A Common Stock as reported in The Wall Street Journal on the trading day preceding the date the option is exercised, or such other reported value of the Class A Common Stock as shall be specified by the Committee. No shares shall be issued until full payment therefor has been made. With the consent of the Committee, an optionee may request the Company to apply automatically the shares to be received upon the exercise of a portion of a stock option (even though stock certificates have not yet been issued) to satisfy the purchase price for additional portions of the option. Each optionee who has exercised an option shall immediately upon notification of the amount due, if any, pay to the Company in cash amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If additional withholding is or becomes required beyond any amount deposited before delivery of the certificates, the optionee shall pay such amount to the Company on demand. If the optionee fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the optionee, including salary, subject to applicable law. With the consent of the Committee an optionee may satisfy this obligation, in whole or in part, by having the Company withhold from the shares to be issued upon the exercise that number of shares that would satisfy the withholding amount due or by delivering to the Company Class A Common Stock to satisfy the withholding amount. Upon the exercise of an option, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued upon exercise of the option.

(b) Incentive Stock Options. Incentive Stock Options shall be subject to the following additional terms and conditions:

(i) Limitation on Amount of Grants. No employee may be granted Incentive Stock Options under the Plan if the aggregate fair market value, on the date of grant, of the Class A Common Stock with respect to which Incentive Stock Options are exercisable for the first time by that employee during any calendar year under the Plan and under any other incentive stock option plan (within the meaning of Section 422 of the Code) of the Company or any parent or subsidiary of the Company exceeds \$100,000.

(ii) Limitations on Grants to 10 Percent Shareholders. An Incentive Stock Option may be granted under the Plan to an employee possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or of any parent or subsidiary of the Company only if the option price is at least 110 percent of the fair market value of the Class A Common Stock subject to the option on the date it is granted, as described in paragraph 6(b)(iv), and the option by its terms is not exercisable after the expiration of five years from the date it is granted.

(iii) Duration of Options. Subject to paragraphs 6(a)(ii) and 6(b)(ii), Incentive Stock Options granted under the Plan shall continue in effect for the period fixed by the Committee, except that no Incentive Stock Option shall be exercisable after the expiration of 10 years from the date it is granted.

(iv) Option Price. The option price per share shall be determined by the Committee at the time of grant. Except as provided in paragraph 6(b)(ii), the option price shall not be less than 100 percent of the fair market value of the Class A Common Stock covered by the Incentive Stock Option at the date the option is granted. The fair market value shall be deemed to be the closing price of the Class A Common Stock as reported in The Wall Street Journal on the day preceding the date the option is granted, or if there has been no sale on that date, on the last preceding date on which a sale occurred, or such other value of the Class A Common Stock as shall be specified by the Committee.

(v) Limitation on Time of Grant. No Incentive Stock Option shall be granted on or after the tenth anniversary of the last action by the Board of Directors approving an increase in the number of shares available for issuance under the Plan, which action was subsequently approved within 12 months by the shareholders.

(vi) Conversion of Incentive Stock Options. The Committee may at any time without the consent of the optionee convert an Incentive Stock Option to a Non-Statutory Stock Option.

(c) Non-Statutory Stock Options. Non-Statutory Stock Options shall be subject to the following additional terms and conditions:

(i) Option Price. The option price for Non-Statutory Stock Options shall be determined by the Committee at the time of grant and may be any amount determined by the Committee.

(ii) Duration of Options. Non-Statutory Stock Options granted under the Plan shall continue in effect for the period fixed by the Committee.

7. Stock Bonuses. The Committee may award shares under the Plan as stock bonuses. Shares awarded as a bonus shall be subject to the terms, conditions, and restrictions determined by the Committee. The restrictions may include restrictions concerning transferability and forfeiture of the shares awarded, together with such other restrictions as may be determined by the Committee. The Committee may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Committee. The certificates representing the shares awarded shall bear any legends required by the Committee. The Company may require any recipient of a stock bonus to pay to the Company in cash upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the recipient, including salary or fees for services, subject to applicable law. With the consent of the Committee, a recipient may deliver Class A Common Stock to the Company to satisfy this withholding obligation. Upon the issuance of a stock bonus, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued.

8. Restricted Stock. The Committee may issue shares under the Plan for such consideration (including promissory notes and services) as determined by the Committee. Shares issued under the Plan shall be subject to the terms, conditions and restrictions determined by the Committee. The restrictions may include restrictions concerning transferability, repurchase by the Company and forfeiture of the shares issued, together with such other restrictions as may be determined by the Committee. All Class A Common Stock issued pursuant to this paragraph 8 shall be subject to a purchase agreement, which shall be executed by the Company and the prospective recipient of the shares prior to the delivery of certificates representing such shares to the recipient. The purchase agreement may contain any terms, conditions, restrictions, representations and warranties required by the Committee. The certificates representing the shares shall bear any legends required by the Committee. The Company may require any purchaser of restricted stock to pay to the Company in cash upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the purchaser fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the purchaser, including salary, subject to applicable law. With the consent of the Committee, a purchaser may deliver Class A Common Stock to the Company to satisfy this

withholding obligation. Upon the issuance of restricted stock, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued.

9. Stock Appreciation Rights.

(a) Grant. Stock appreciation rights may be granted under the Plan by the Committee, subject to such rules, terms, and conditions as the Committee prescribes.

(b) Exercise.

(i) Each stock appreciation right shall entitle the holder, upon exercise, to receive from the Company in exchange therefor an amount equal in value to the excess of the fair market value on the date of exercise of one share of Class A Common Stock of the Company over its fair market value on the date of grant (or, in the case of a stock appreciation right granted in connection with an option, the excess of the fair market value of one share of Class A Common Stock of the Company over the option price per share under the option to which the stock appreciation right relates), multiplied by the number of shares covered by the stock appreciation right or the option, or portion thereof, that is surrendered. Payment by the Company upon exercise of a stock appreciation right may be made in Class A Common Stock valued at fair market value, in cash, or partly in Class A Common Stock and partly in cash, all as determined by the Committee.

(ii) A stock appreciation right shall be exercisable only at the time or times established by the Committee. If a stock appreciation right is granted in connection with an option, the following rules shall apply: (1) the stock appreciation right shall be exercisable only to the extent and on the same conditions that the related option could be exercised; (2) upon exercise of the stock appreciation right, the option or portion thereof to which the stock appreciation right relates terminates; and (3) upon exercise of the option, the related stock appreciation right or portion thereof terminates.

(iii) The Committee may withdraw any stock appreciation right granted under the Plan at any time and may impose any conditions upon the exercise of a stock appreciation right or adopt rules and regulations from time to time affecting the rights of holders of stock appreciation rights. Such rules and regulations may govern the right to exercise stock appreciation rights granted prior to adoption or amendment of such rules and regulations as well as stock appreciation rights granted thereafter.

(iv) For purposes of this paragraph 9, the fair market value of the Class A Common Stock shall be the closing price of the Class A Common Stock as reported in The Wall Street Journal, or such other reported value of the Class A Common Stock as shall be specified by the Committee, on the trading day preceding the date the stock appreciation right is exercised.

(v) No fractional shares shall be issued upon exercise of a stock appreciation right. In lieu thereof, cash may be paid in an amount equal to the value of the fraction or, if the Committee shall determine, the number of shares may be rounded downward to the next whole share.

(vi) Each stock appreciation right granted in connection with an Incentive Stock Option and, unless otherwise determined by the Board of Directors, each other stock appreciation right granted under the Plan by its terms shall be nonassignable and nontransferable by the holder, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the holder's domicile at the time of death, and each stock appreciation right by its terms shall be exercisable during the holder's lifetime only by the holder; provided, however, that a stock appreciation right not granted in connection with an Incentive Stock Option shall also be transferable pursuant to a qualified domestic relations order as defined under the Code or Title I of the Employee Retirement Income Security Act.

(vii) Each participant who has exercised a stock appreciation right shall, upon notification of the amount due, pay to the Company in cash amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the participant including salary, subject to applicable law. With the consent of the Committee a participant may satisfy this obligation, in whole or in part, by having the Company withhold from any shares to be issued upon the exercise that number of shares that would satisfy the withholding amount due or by delivering Class A Common Stock to the Company to satisfy the withholding amount.

(viii) Upon the exercise of a stock appreciation right for shares, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued. Cash payments of stock appreciation rights shall not reduce the number of shares of Class A Common Stock reserved for issuance under the Plan.

10. Cash Bonus Rights.

(a) Grant. The Committee may grant cash bonus rights under the Plan in connection with (i) options granted or previously granted, (ii) stock appreciation rights granted or previously granted, (iii) stock bonuses awarded or previously awarded and (iv) shares sold or previously sold under the Plan. Cash bonus rights will be subject to rules, terms and conditions as the Committee may prescribe. Unless otherwise determined by the Committee, each cash bonus right granted under the Plan by its terms shall be nonassignable and nontransferable by the holder, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the holder's domicile at the time of death or pursuant to a qualified domestic relations order as defined under the Code or Title I of the Employee Retirement Income

Security Act. The payment of a cash bonus shall not reduce the number of shares of Class A Common Stock reserved for issuance under the Plan.

(b) Cash Bonus Rights in Connection With Options. A cash bonus right granted in connection with an option will entitle an optionee to a cash bonus when the related option is exercised (or terminates in connection with the exercise of a stock appreciation right related to the option) in whole or in part. If an optionee purchases shares upon exercise of an option and does not exercise a related stock appreciation right, the amount of the bonus shall be determined by multiplying the excess of the total fair market value of the shares to be acquired upon the exercise over the total option price for the shares by the applicable bonus percentage. If the optionee exercises a related stock appreciation right in connection with the termination of an option, the amount of the bonus shall be determined by multiplying the total fair market value of the shares and cash received pursuant to the exercise of the stock appreciation right by the applicable bonus percentage. The bonus percentage applicable to a bonus right shall be determined from time to time by the Committee but shall in no event exceed 75 percent.

(c) Cash Bonus Rights in Connection With Stock Bonus. A cash bonus right granted in connection with a stock bonus will entitle the recipient to a cash bonus payable when the stock bonus is awarded or restrictions, if any, to which the stock is subject lapse. If bonus stock awarded is subject to restrictions and is repurchased by the Company or forfeited by the holder, the cash bonus right granted in connection with the stock bonus shall terminate and may not be exercised. The amount and timing of payment of a cash bonus shall be determined by the Committee.

(d) Cash Bonus Rights in Connection With Stock Purchases. A cash bonus right granted in connection with the purchase of stock pursuant to paragraph 8 will entitle the recipient to a cash bonus when the shares are purchased or restrictions, if any, to which the stock is subject lapse. Any cash bonus right granted in connection with shares purchased pursuant to paragraph 8 shall terminate and may not be exercised in the event the shares are repurchased by the Company or forfeited by the holder pursuant to applicable restrictions. The amount and timing of payment of a cash bonus shall be determined by the Committee.

(e) Taxes. The Company shall withhold from any cash bonus paid pursuant to paragraph 10 the amount necessary to satisfy any applicable federal, state and local withholding requirements.

11. Performance Units. The Committee may grant performance units consisting of monetary units which may be earned in whole or in part if the Company achieves certain goals established by the Committee over a designated period of time, but not in any event more than 10 years. The goals established by the Committee may include earnings per share, return on shareholders' equity, return on invested capital, and such other goals as may be established by the Committee. In the event that the minimum performance goal established by the Committee is not achieved at the conclusion of a period, no payment shall be made to the participants. In the event

the maximum corporate goal is achieved, 100 percent of the monetary value of the performance units shall be paid to or vested in the participants. Partial achievement of the maximum goal may result in a payment or vesting corresponding to the degree of achievement as determined by the Committee. Payment of an award earned may be in cash or in Class A Common Stock or in a combination of both, and may be made when earned, or vested and deferred, as the Committee determines. Deferred awards shall earn interest on the terms and at a rate determined by the Committee. Unless otherwise determined by the Committee, each performance unit granted under the Plan by its terms shall be nonassignable and nontransferable by the holder, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the holder's domicile at the time of death or pursuant to a qualified domestic relations order as defined under the Code or Title I of the Employee Retirement Income Security Act. Each participant who has been awarded a performance unit shall, upon notification of the amount due, pay to the Company in cash amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the participant, including salary or fees for services, subject to applicable law. With the consent of the Committee a participant may satisfy this obligation, in whole or in part, by having the Company withhold from any shares to be issued that number of shares that would satisfy the withholding amount due or by delivering Class A Common Stock to the Company to satisfy the withholding amount. The payment of a performance unit in cash shall not reduce the number of shares of Class A Common Stock reserved for issuance under the Plan. The number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued upon payment of an award.

12. Foreign Qualified Grants. Awards under the Plan may be granted to such officers and employees of the Company and its subsidiaries and such other persons described in paragraph 1 residing in foreign jurisdictions as the Committee may determine from time to time. The Committee may adopt such supplements to the Plan as may be necessary to comply with the applicable laws of such foreign jurisdictions and to afford participants favorable treatment under such laws; provided, however, that no award shall be granted under any such supplement with terms which are more beneficial to the participants than the terms permitted by the Plan.

13. Changes in Capital Structure. If the outstanding Class A Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of any reorganization, merger, consolidation, plan of exchange, recapitalization, reclassification, stock split-up, combination of shares or dividend payable in shares, appropriate adjustment shall be made by the Committee in the number and kind of shares available for awards under the Plan. In addition, the Committee shall make appropriate adjustment in the number and kind of shares as to which outstanding options and stock appreciation rights, or portions thereof then unexercised, shall be exercisable, so that the optionee's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Committee shall have no obligation to effect any adjustment that would or might result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner

determined by the Committee. Any such adjustments made by the Committee shall be conclusive. In the event of dissolution of the Company or a merger, consolidation or plan of exchange affecting the Company, in lieu of providing for options and stock appreciation rights as provided above in this paragraph 13 or in lieu of having the options and stock appreciation rights continue unchanged, the Committee may, in its sole discretion, provide a 30-day period prior to such event during which optionees shall have the right to exercise options and stock appreciation rights in whole or in part without any limitation on exercisability and upon the expiration of which 30-day period all unexercised options and stock appreciation rights shall immediately terminate.

14. Corporate Mergers, Acquisitions, etc. The Committee may also grant options, stock appreciation rights, performance units, stock bonuses and cash bonuses and issue restricted stock under the Plan having terms, conditions and provisions that vary from those specified in this Plan provided that any such awards are granted in substitution for, or in connection with the assumption of, existing options, stock appreciation rights, stock bonuses, cash bonuses, restricted stock and performance units granted, awarded or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company or a subsidiary is a party.

15. Amendment of Plan. The Board of Directors may at any time, and from time to time, modify or amend the Plan in such respects as it shall deem advisable because of changes in the law while the Plan is in effect or for any other reason. Except as provided in paragraphs 6(a)(iv), 9 and 13, however, no change in an award already granted shall be made without the written consent of the holder of such award.

16. Approvals. The obligations of the Company under the Plan are subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the grants under the Plan. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver Class A Common Stock under the Plan if such issuance or delivery would violate applicable state or federal securities laws.

17. Employment and Service Rights. Nothing in the Plan or any award pursuant to the Plan shall (i) confer upon any employee any right to be continued in the employment of the Company or any subsidiary or interfere in any way with the right of the Company or any subsidiary by whom such employee is employed to terminate such employee's employment at any time, for any reason, with or without cause, or to decrease such employee's compensation or benefits, or (ii) confer upon any person engaged by the Company any right to be retained or employed by the Company or to the continuation, extension, renewal, or modification of any compensation, contract, or arrangement with or by the Company.

18. Rights as a Shareholder. The recipient of any award under the Plan shall have no rights as a shareholder with respect to any Class A Common Stock until the date of issue to the recipient of a stock certificate for such shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs prior to the date such stock certificate is issued.

EFFECTIVE DATE: September 13, 1993.

AMENDED: January 6, 1997 and October 20, 1997.

SCHNITZER STEEL INDUSTRIES, INC.
List of Subsidiaries

Subsidiary -----	State of Incorporation -----
Cascade Steel Rolling Mills, Inc.	Oregon
Columbia Forge and Machine Works, Inc.	Oregon
Crawford Street Corporation	Oregon
Edman Corp.	Oregon
General Metals of Alaska	Oregon
Joint Venture Operations, Inc.	Delaware
Levi's Iron and Metal, Inc.	Oregon
Manufacturing Management, Inc.	Oregon
SSI International (Oregon), Inc.	Oregon
SSI International (Guam), Inc.	Guam
SSI International Far East Ltd.	Korea
Mormil Corp.	Oregon
MRI Corporation	Delaware
Norprop, Inc.	Oregon
Oregon Rail Marketing Co.	Oregon
Proler Environmental Services, Inc.	Delaware
Proler International Corp.	Delaware
Proler Properties, Inc.	Texas
Proleride Transport Systems, Inc.	Delaware
Proler Recycling, Inc.	Delaware
Schnitzer Leasing, Inc.	Oregon
Schnitzer Steel of Tacoma	Washington
SSP Reclamation Company	Oregon

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-87008 and 333-21895) of Schnitzer Steel Industries, Inc. of our report dated September 26, 1997 appearing on page 28 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 55 of this Form 10-K.

PRICE WATERHOUSE LLP

November 18, 1997
Portland Oregon

POWER OF ATTORNEY
(Form 10-K)

The undersigned hereby constitutes and appoints each of Robert W. Philip, Kenneth M. Novack, Barry A. Rosen and James W. Cruckshank his true and lawful attorney and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Schnitzer Steel Industries, Inc. for the year ended August 31, 1997 and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each attorney and agent full power and authority to do any and all acts and things necessary or advisable to be done, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that the attorney and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: October 28, 1997.

/s/ LEONARD SCHNITZER

LEONARD SCHNITZER

POWER OF ATTORNEY
(Form 10-K)

The undersigned hereby constitutes and appoints each of Robert W. Philip, Kenneth M. Novack, Barry A. Rosen and James W. Cruckshank his true and lawful attorney and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Schnitzer Steel Industries, Inc. for the year ended August 31, 1997 and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each attorney and agent full power and authority to do any and all acts and things necessary or advisable to be done, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that the attorney and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: October 29, 1997.

/s/ K. NOVACK

KENNETH M. NOVACK

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 28, 1997.

/s/ R.W. PHILIP

ROBERT W. PHILIP

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 28, 1997.

/s/ DORI SCHNITZER

DORI SCHNITZER

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 30, 1997.

/s/ CAROL S. LEWIS

CAROL S. LEWIS

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 30, 1997.

/s/ GARY SCHNITZER

GARY SCHNITZER

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 28, 1997.

/s/ MANUEL SCHNITZER

MANUEL SCHNITZER

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 28, 1997.

/s/ JEAN S. REYNOLDS

JEAN S. REYNOLDS

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 31, 1997.

/s/ ROBERT S. BALL

ROBERT S. BALL

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 29, 1997.

/s/ W.A. FURMAN

WILLIAM A. FURMAN

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 28, 1997.

/s/ RALPH R. SHAW

RALPH R. SHAW

POWER OF ATTORNEY
(Form 10-K)

The undersigned hereby constitutes and appoints each of Robert W. Philip, Kenneth M. Novack, Barry A. Rosen and James W. Cruckshank his true and lawful attorney and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Schnitzer Steel Industries, Inc. for the year ended August 31, 1997 and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each attorney and agent full power and authority to do any and all acts and things necessary or advisable to be done, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that the attorney and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: October 28, 1997.

/s/ B.A. ROSEN

BARRY A. ROSEN

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 28, 1997.

/s/ JAMES W. CRUCKSHANK

JAMES W. CRUCKSHANK

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF OPERATIONS FILED AS PART OF THE ANNUAL REPORT ON FORM 10-K AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	AUG-31-1997	
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	21,225	
	2.05	
	2.05	