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, 1998 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. [ ].

The aggregate market value and the number of voting shares of the registrant's common stock outstanding on September 30, 1998 was:

Title of Each Class of Common Stock	Shares Outstanding Held By Affiliates	Shares Outstanding Held By Non-Affiliates	Market Value Held By Non-Affiliates
Class A, $1 par value	171,600	5,370,926	$80,563,890
Class B, $1 par value	4,430,328	0	N/A

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 1999 Annual Meeting of Shareholders are incorporated herein by reference in Part III.

SCHNITZER STEEL INDUSTRIES, INC.
FORM 10-K

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PART I

ITEM 1. BUSINESS

Overview

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 28 scrap collection and processing facilities, including export terminals in Los Angeles, California, Everett, Massachusetts, Portland, Maine, 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 both domestic and 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.

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 supplies ferrous scrap to domestic mills and exports ferrous scrap to foreign markets from scrap collection, processing and deep water facilities in Los Angeles, California, Providence, Rhode Island, Everett, Massachusetts, Portland, Maine, and Jersey City, New Jersey and 23 other scrap recycling yards.

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.

Business Strategy

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 historically over 65% of its operating income, before corporate expenses and eliminations, derived from Scrap Operations. Scrap Operations is one of the leading processors in each of the markets in which it operates. Future capital expenditures will focus largely on increasing the Company's position as one of the premier scrap processors in the country.

Until the recent turmoil in the scrap market caused by the Asian financial crisis, the Company was 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 generally able to take advantage of this differential in timing between purchases and sales and negotiate prices with suppliers that secure profitable transactions. The Asian financial crisis caused scrap selling prices to drop faster than the Company was able to drop purchase prices for unprocessed scrap. When the scrap markets stabilize, the Company believes that it will be able to regain much of the margins it has lost as a result of the Asian financial crisis.

It is the Company's intent to only make acquisitions that will be immediately additive to the Company's earnings.

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

Expand Scrap Recycling Operations. The Company will continue to 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 or through joint ventures with scrap processors and scrap suppliers. During fiscal 1998, the Company and one its joint venture partners increased their East Coast market position through the buyout of a third joint venture partner and the completion of two other strategic joint venture acquisitions. In November 1996, the Company acquired Proler. Proler's scrap metal joint ventures process approximately 2.5 million long tons of ferrous scrap per year. The Company's purchase of Manufacturing Management, Inc. (MMI), another scrap processor, in March 1995 added approximately 500,000 long tons per year to the Company's ferrous scrap 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 1998, the Company spent $40.7 million on capital improvements related to Scrap Operations. During this same time, the Company made capital expenditures of $90.4 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 is investing in technology to improve its key operating systems.

The Company has contracted to purchase and install a state-of-the-art automobile shredder at its Tacoma facility capable of shredding over 2,000 tons per day. This shredder will replace two existing aged shredders that on a combined basis are capable of only 1,000 tons per day. The new shredder will reduce operating costs, improve product quality and allow the Tacoma scrap operations to shred material that was previously sold as lower grades. Additionally, the dock and bulkhead at the Tacoma facility will be rebuilt. It is anticipated that the new shredder and rebuilt dock and bulkhead will be installed and operational in the second quarter of fiscal 1999.

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 expands the Company's rolling capacity, based on anticipated product mix, to about 700,000 tons annually to more closely match the capacity of the melt shop. The Company does not expect to expand Steel Operations through significant capital additions 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 continue to upgrade the Company's finished steel production and product mix capturing additional margin.

Complete Additive Acquisitions. The Asian financial crisis has caused significant dislocations in the scrap industry and to a much lesser extent the steel industry. It is the Company's belief that as a result of these dislocations, potential acquisitions in the scrap and steel industries may again become available at attractive prices. With a strong balance sheet, cash flows and available borrowing capacity, the Company is in a position to complete an acquisition should one fitting the Company's long-term strategic plans become available. The Company will only complete an acquisition if it is immediately additive to earnings.

Scrap Operations

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, highways 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 also 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 foreign 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 or Tacoma facilities 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,									
	1998		1997		1996		1995		1994	
	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	$ 90.4	720	$ 111.1	853	$ 131.8	858	$ 125.9	680	$ 75.9	461
Steel Operations:										
Supplied by Company Scrap Facilities	44.5	382	43.7	362	44.1	358	44.3	338	36.8	304
Purchased from Others for Direct Shipment/2	10.4	98	14.1	132	9.9	92	10.4	91	17.5	139
Total Steel Operations	54.9	480	57.8	494	54.0	450	54.7	429	54.3	443
Other US Steel Producers	30	235	23.3	171	30.1	171	25.2	145	16.1	87
Total	$ 175.3	1,435	$ 192.2	1,518	$ 215.9	1,479	$ 205.8	1,254	$ 146.3	991

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

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

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 representatives in Tokyo, Japan. The Company believes these representatives 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 1998, one customer accounted for approximately 23% and Scrap Operations' five largest customers accounted for 61% 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 rapidly declining 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 or widen 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. Scrap yards situated nearest to scrap sellers and major transportation routes have a competitive advantage because of the significance of freight charges relative to the value of scrap. 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 day. The Tacoma facility has two aged auto shredders with combined capacity to process up to 1,000 tons of scrap per day that are being replaced with a state-of-the-art shredder capable of shredding over 2,000 tons 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 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 processed scrap to foreign steel producers by ship. 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. Upon completion of the new dock and bulkhead, the Tacoma marine terminal will be serviced by a 200-ton whirly crane and one 40-ton crane.

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. The agreement, which expired in June 1998, guaranteed the ship owner a residual market value of $2.5 million at the end of the time charter. Upon expiration of the time charter, the Company paid the guaranteed residual and entered into an additional 5 year time charter, at the end of which the Company will own the vessel. The Company entered into two additional seven-year time charters for other vessels 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 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.

Backlog. At August 31, 1998, the Company's Scrap Operations had a backlog of firm orders of $6.8 million, as compared to $31.2 million at August 31, 1997 All of the backlog at August 31, 1998 is related to export shipments and is expected to be shipped during 1998.

Joint Ventures

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 five 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 28 scrap collection and processing facilities, including export terminals in Los Angeles, California, Everett, Massachusetts, Portland, Maine, Providence, Rhode Island and Jersey City, New Jersey and 23 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.

During fiscal 1998, the Company and one of its joint venture partners increased their East Coast market position through the buyout of a third joint venture partner and the completion of two other strategic joint venture acquisitions. The Company and its joint venture partners continue to seek expansion opportunities in both their existing markets and elsewhere in the United States.

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, Portland, Maine, 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, one yard 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. During fiscal 1998, the Company purchased substantially all the car bodies generated in California by this joint venture.

The Company is also a 50% partner in 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 1998, the Company purchased substantially all of the ferrous scrap generated by this joint venture.

During fiscal 1998, the Company purchased 203,000 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:

	Year Ended August 31,									
	1998		1997		1996		1995		1994	
	Sales	Vol./1	Sales	Vol./1	Sales	Vol./1	Sales	Vol./1	Sales	Vol./1
	(dollar amounts in millions)									
Rebar	$ 101.9	325	$ 104.9	341	$ 98.7	321	$ 78.3	255	$ 85.9	310
Merchant bar	46.2	123	43.1	117	35.5	95	34.4	87	41.7	113
Wire rod	11.3	37	4.6	15						
Coiled rebar	6.0	18	1.7	5						
Specialty products	22.0	50	28.1	68	25.8	60	23.5	56	18.0	47
Total	$ 187.4/2	553	$ 182.4/2	546	$ 160.0	476	$ 136.2/2	398	$ 145.6/2	470

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

/2 Does not include billet sales of $4.0 million in 1998, $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 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 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 it's 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 to continue to increase due to greater efficiencies to be gained at 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. Due to zoning changes, the Company will be closing the Union City distribution center by April 1999 and is evaluating whether to replace it with a third party warehouse which would provide storage and fulfillment. 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, 1998, Steel Operations sold its steel products to approximately 500 customers primarily located in the 10 western states. In that period, approximately 39% 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 8.6% of Steel Operations' revenues in fiscal 1998. Steel Operations' 10 largest customers accounted for approximately 43% of its revenues during fiscal 1998.

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 affiliated 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 5% and 2% respectively, of Steel Operations' cost of goods sold in the year ended August 31, 1998.

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 1998, 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.

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, 1996, 1997 and 1998 the melt shop produced 493,000, 586,000 and 611,000 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 1996 Steel Operations constrained melt shop production through additional shutdown days to limit the increase in billet inventory. Production was not constrained in 1997 or 1998. 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.

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 Union Pacific Corporation and the largest customer for northbound 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 are indications that imported steel may have an adverse effect on the steel market in the near 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.

MMI

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, 1998 aggregated $20.2 million.

General Metals of Tacoma (GMT), 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). GMT 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. GMT and five other PRP's voluntarily have entered into an Administrative Order on Consent with the EPA to fund a pre-remedial study of sediment contamination and remediation alternatives. GMT's share of the study, which is now expected to be completed in late 1999, is approximately $2 million. GMT 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 1998, GMT entered into an Administrative Order on Consent with EPA pursuant to which GMT agreed to replace its bulkhead and wharf with a steel sheet pile/cement dock, including capping for inter-tidal sediments, to address potential concerns about contaminated sediments being addressed in the Hylebos Superfund matter.

In 1990, MMI entered into a Consent Decree with the Washington Department of Ecology which required MMI to pave the entire Tacoma scrap facility and install a stormwater collection and treatment system. The stormwater system has been installed and final paving was completed during fiscal 1996. On an ongoing basis, MMI 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 it is now subject to a five year monitoring program. 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.

Proler

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 $8.1 million remained outstanding on August 31, 1998. 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.

Proler leased lands from Kennecott in Copperton, Utah between 1966 and 1992 for a detinning plant operation, which supplied iron precipitate to the mines. Environmental site clean-up activities in 1997 and to date during 1998 totaled $300,000 for Proler, with an estimated $200,000 of remaining cleanup to be done. The amount of remaining work and the parties responsible for such work to reach final closure on the site are currently in negotiation.

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 1996 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.

Scrap Operations

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.

Steel Operations

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 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.

Steel Operations' mini-mill operating permit under Title V of the Clean Air Act Amendment (CAA) of 1990, which governs certain air quality standards, was issued in 1998 and expires in April 2003. The mini-mill is currently authorized to melt up to 900,000 tons of scrap per year and produce finished steel products totaling 450,000 tons for Rolling Mill #1 and 525,000 tons for Rolling Mill #2.

As the mini-mill's production grows beyond current levels, Steel Operations 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. Steel Operations 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 Steel Operations.

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, except as discussed above, does not anticipate any substantial capital expenditures for new environmental control facilities during fiscal 1999 or 2000.

Employees

As of August 31, 1998, the Company had 1,062 full-time employees, consisting of 417 employees at the Company's Scrap Operations, 572 employees at Steel Operations, and 73 corporate administrative employees. Of these employees, 682 are covered by collective bargaining agreements with twelve unions. Steel Operations' contract with the United Steelworkers of America covers 432 of these employees and expires on February 1, 2000. The Company believes that its labor relations generally are good.

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 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 Pasco and Anchorage operations are located on sites leased from third parties.

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

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 has chosen to close its Union City, California distribution center by April 1999. Should the Company determine that the operations performed at Union City are essential, it will contract with a third party warehouse to provide storage and fulfillment. 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, 1998.

ITEM 4(a). EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Office
Leonard Schnitzer	73	Chairman of the Board and Chief Executive Officer
Robert W. Philip	51	President
Kenneth M. Novack	52	Executive Vice President
Gary Schnitzer	56	Executive Vice President - California Scrap Operations
Barry A. Rosen	53	Vice President - Finance and Treasurer
Kurt C. Zetzsche	59	President of Steel Operations
Edgar C. Shanks	50	Vice President - Taxation
James W. Cruckshank	43	Controller and Assistant Treasurer
Dori Schnitzer	44	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.

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 tier of the Nasdaq Stock Market under the symbol SCHN. The approximate number of shareholders of record on September 30, 1998 was 100. The stock has been trading since November 16, 1993. The following table sets forth the high and low prices reported at the close of trading on the Nasdaq Stock Market and the dividends paid per share for the periods indicated.

	Fiscal Year 1998		
	HIGH PRICE	LOW PRICE	DIVIDENDS PER SHARE
First Quarter	$37.63	$27.38	$.05
Second Quarter	30.00	22.63	.05
Third Quarter	27.13	24.06	.05
Fourth Quarter	26.25	15.00	.05

	Fiscal Year 1997		
	HIGH PRICE	LOW PRICE	DIVIDENDS PER SHARE
First Quarter	$29.25	$24.75	$.05
Second Quarter	29.25	25.25	.05
Third Quarter	31.00	22.25	.05
Fourth Quarter	34.00	25.00	.05

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended August 31,				
	1998	1997(1)	1996	1995(2)	1994
	(In millions, except per share, per ton and shipment data)				
INCOME STATEMENT DATA:					
Revenues	$ 353.1	$ 361.7	$ 339.3	$ 330.7	$ 261.7
Cost of goods sold and other operating expenses	311.2	314.8	290.8	284.5	234.3
Selling and administrative	22.5	21.2	18.9	16.2	13.2
Income from joint ventures	4.1	6.9	3.3	2.5	2.4
Income from operations	23.5	32.6	32.9	32.5	16.6
Interest expense	(6.8)	(5.0)	(3.8)	(2.4)	(1.0)
Other income (expense)	(1.5)	4.6	1.7	3.9	0.9
Income before income taxes	15.2	32.2	30.8	34.0	16.5
Income tax provision	(5.8)	(11.0)	(10.0)	(11.8)	(5.8)
Net income	$ 9.4	$ 21.2	$ 20.8	$ 22.2	$ 10.7
Basic earnings per share	$ 0.94	$ 2.06	$ 2.25	$ 2.83	$ 1.47
Diluted Earnings per share	$ 0.93	$ 2.05	$ 2.24	$ 2.82	$ 1.47
Dividends per common share	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.15
OTHER DATA:					
Shipments (in thousands of tons)(3):					
Ferrous scrap	1,435	1,518	1,479	1,254	991
Finished steel products(4)	553	546	476	398	470
Average selling price per ton:					
Ferrous scrap	$ 122	$ 127	$ 146	$ 154	$ 148
Finished steel products(4)	339	334	336	342	310
Depreciation and amortization	$ 18.7	$ 18.3	$ 14.0	$ 11.6	$ 9.3
Capital expenditures	14.2	15.5	44.6	31.1	21.1

	Year Ended August 31,				
	1998	1997	1996	1995	1994
	(In millions)				
BALANCE SHEET DATA:					
Working capital	$ 111.1	$ 104.9	$ 92.4	$ 56.8	$ 48.2
Total assets	471.3	428.0	337.5	280.3	164.1
Short-term debt	0.2	0.4	0.2	0.2	1.9
Long-term debt	140.2	92.9	44.5	64.7	2.8
Shareholders' equity	241.4	239.1	223.8	136.0	115.3

(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.

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

(4) Does not include billet sales of $4.0 million in 1998, $1.3 million in 1997, $5.2 million in 1995 and $9.0 million in 1994.

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 during the period of fiscal 1995 through fiscal 1997. Primarily due to the Asian financial crisis, fiscal 1998 results for Scrap Operations were negatively impacted.

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.

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.

	Revenues Year Ended August 31, (In millions)				
	1998	1997 (1)	1996	1995 (2)	1994
Scrap Operations:					
Ferrous	$ 175.3	$ 192.2	$ 215.9	$ 205.8	$ 146.4
Nonferrous (3)	27.3	27.7	10.7	32.2	11.4
Other	15.3	16.5	6.8	6.1	4.0
Scrap Total	217.9	236.4	233.4	244.1	161.8
Sales to Steel Operations (4)	(56.2)	(58.4)	(54.1)	(54.9)	(54.7)
Sales to Unaffiliated Customers	161.7	178.0	179.3	189.2	107.1
Steel Operations	191.4	183.7	160.0	141.5	154.6
Total	$ 353.1	$ 361.7	$ 339.3	$ 330.7	$ 261.7

	Income from Operations Year Ended August 31, (In millions)				
	1998	1997 (1)	1996	1995 (2)	1994
Scrap Operations	$ 16.5	$ 27.4	$ 29.6	$ 26.3	$ 12.3
Steel Operations	9.8	5.5	6.3	9.3	6.5
Joint Ventures	4.1	6.9	3.3	2.5	2.4
Corporate Expense and Eliminations (5)	(6.9)	(7.2)	(6.3)	(5.6)	(4.6)
Income from Operations	$ 23.5	$ 32.6	$ 32.9	$ 32.5	$ 16.6

(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.

Fiscal 1998 Compared to Fiscal 1997

Revenues for Scrap Operations decreased, while revenues for Steel Operations increased, resulting in a net decrease in the Company's revenues of $8.6 million to $353.1 million for fiscal 1998 compared to $361.7 million for fiscal 1997. The Company achieved record shipments of finished steel products and produced record tons of billets in fiscal 1998.

Scrap Operations generated revenues of $217.9 million, before intercompany eliminations, compared with $236.4 million in fiscal 1997, representing a decrease of $18.5 million (8%). Ferrous revenues decreased $17.0 million (9%) as the result of a 5% decrease in ferrous tons shipped at lower average selling prices. Sales to the Company's Steel Operations were down slightly. Scrap Operations made 25 ferrous scrap export shipments totaling 720,000 tons in fiscal 1998, compared with 30 shipments totaling 853,000 tons in fiscal 1997, while domestic third-party tonnage increased 37% to 235,000 tons. The average selling price for ferrous scrap declined $5 per ton to $122 with the largest decline occurring in export prices during the second half of 1998.

Steel Operations' revenues increased $7.7 million (4%) to $191.4 million. Higher volumes sold, coupled with an increase in selling prices, contributed to the increase. Average steel selling prices increased $5 per ton to $339, while finished steel tons shipped increased 6,600 tons to 553,000 tons. During fiscal 1998, the Company also sold 16,900 tons of billets, compared with 5,600 tons during 1997.

Cost of Goods Sold. Overall, cost of goods sold decreased $3.6 million (1%) to $311.2 million and increased as a percentage of revenue from 87% in fiscal 1997 to 88% in fiscal 1998. Gross profit decreased $5.1 million (11%) to $41.9 million.

Scrap Operations' cost of goods sold decreased $8.8 million (4%) to $189.1 million as the result of a 5% decrease in ferrous tonnage shipped. Cost of sales per ferrous ton shipped remained unchanged from 1997 to 1998. The average selling price of ferrous scrap also declined, resulting in a decrease in Scrap Operations' gross profit of $9.6 million.

Cost of goods sold for Steel Operations increased $2.7 million (2%) to $178.1 million as the result of increased tonnage shipped. Cost of sales per ton decreased $4 as the result of lower scrap prices and increased plant efficiencies. This decrease, coupled with a $5 per ton increase in the average selling price for finished steel and a 1% increase in tonnage shipped, resulted in a $4.8 million (58%) increase in overall gross profit and a 53% increase in gross profit per ton for finished steel.

Selling and Administrative Expenses. Selling and administrative expenses increased $1.3 million (6%) in fiscal 1998 compared to fiscal 1997 primarily as the result of overhead added due to the Proler acquisition in November 1996.

Income from Joint Ventures. The Company's joint ventures generated $408.6 million of revenues for fiscal 1998 compared with $352.5 million for fiscal 1997. The Joint Ventures in the Scrap Processing Business shipped 2.2 million tons and 2.5 million tons for the same periods, respectively. This decrease was primarily a result of the Asian financial crisis. Income from joint ventures for fiscal 1998 decreased $2.8 million to $4.1 million compared with fiscal 1997. This decrease resulted from operating losses due to the Asian financial crisis as well as a $.4 million charge to income for closure of redundant plant facilities and a $3.1 million charge to state inventory at the lower of cost or market. This was offset by a $2.0 million favorable inventory adjustment recorded as a result of physical inventories. The tons shipped for fiscal 1997 in the discussion above include activity which occurred prior to the Company's acquisition of Proler.

Interest Expense. Interest expense for fiscal 1998 increased $1.8 million because of additional debt required to support joint venture operations and capital expenditures. Average borrowings for fiscal 1998 were $97.6 million compared with $96.1 million for 1997. The average interest rate for fiscal 1998 was 5.8% compared with 5.7% for fiscal 1997.

Gain (Loss) on Sale of Fixed Assets. Results for fiscal 1998 include a $2.2 million charge to reflect the estimated loss which the Company expects to realize upon the sale of its Tacoma shredders, which are being replaced with a state-of-the-art automobile shredder.

Other Income. Other Income decreased $3.6 million during the year ended August 31, 1998 compared with the prior year. Fiscal 1997 included a $3 million gain on settlement of an interest rate agreement which it had entered into for the sole purpose of locking in the interest rate on a planned private placement of debt, which the Company subsequently decided against pursuing.

Income tax provision. The effective tax rate for fiscal 1998 increased to 38% from 34% in fiscal 1997 as a result of lower benefits from the Company's foreign sales corporation and a reduced benefit from state tax credits.

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, compared to previous years.

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 the prior year, foreign scrap tonnage declined slightly, while domestic third party sales tonnage remained relatively the same as the prior year. Average ferrous scrap revenues per ton for the first three quarters of fiscal 1997 were lower than for the same period in the prior year, resulting in a lower average selling price for the year of $127 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 in the prior year. 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 $24.0 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 $1.7 million (3%) to $46.9 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 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 $2.3 million (12%) 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 and does not intend to enter into speculative hedge arrangements.

Year 2000. The following discussion is provided in response to the Securities and Exchange Commission's Interpretation of Disclosure of Year 2000 Issues and Consequences by Public Companies, Investment Advisors, Investment Companies, and Municipal Securities Issuers.

In response to Year 2000 compliance issues, the Company has developed a systematic approach that consists of the following three phases: (1) identification and assessment to identify potential Year 2000 issues, (2) modification or replacement of equipment and software, (3) final testing to ensure that all systems are Year 2000 compliant after modifications are installed.

The Company has divided its Year 2000 issues into the following categories: (a) physical hardware and related operating systems at the Corporate Data Processing Facility, (b) business and financial reporting systems at all locations, (c) personal computers and peripheral equipment at all locations, (d) facility and support systems (including communication devices and safety systems) at all locations, (e) manufacturing systems at Cascade Steel Rolling Mills.

The Company has completed the identification and assessment phase for the Corporate Data Processing Facility, the business and financial reporting systems at all locations, the personal computers and peripheral equipment at all locations, and the facility and support systems at a majority of its locations.

The Company currently expects that all Phase 1 activities will be complete by March 1, 1999.

The Company has completed the modification of equipment at the Corporate Data Processing Facility, the business and financial reporting systems at all locations, personal computers at all locations, and expects the remainder of Phase 2 activities to be complete no later than May 31, 1999, except for Steel Operations which is expected to be complete no later than November 30, 1999.

The Company expects to complete Phase 3 activities by no later than May 31, 1999, except for Steel Operations which is expected to be complete no later than November 30, 1999.

Management estimates that the costs for correction of the Year 2000 issues, including any software and hardware upgrades (but excluding replacements that would have occurred even without the Year 2000 issue), and the cost of personnel allocated to this project should not exceed $1,000,000, of which $500,000 is expected to be capital expenditures. Approximately $100,000 has been spent to date. The year 2000 upgrades are being funded through normal operating funds and are expected to account for less than 5% of the Company's Information Technology, maintenance and manufacturing capital budgets. There can be no assurance that the costs and timeframes above will not change as the Company continues its assessments.

The Year 2000 project is a priority project for the Company's IT and Engineering departments. No significant IT or engineering projects are being deferred as a result of the Company's Year 2000 efforts.

The Company is also in the process of assessing the Year 2000 readiness of its "key" vendors using questionnaires and letters. In the event a critical vendor is found to be non-compliant, the Company will develop contingency plans to address the issue.

As the Company is not dependent on any significant customer, and given the nature of the scrap business, no Year 2000 assessment of customers is anticipated.

At the present time, the Company has not expended the resources to develop a contingency plan with respect to year 2000 compliance as the Company believes it will be Year 2000 ready.

Liquidity and Capital Resources

For the year ended August 31, 1998, cash generated by operations was $13.3 million compared to $23.1 million for the same period last year. The decrease in cash generated this year is predominantly due to a decrease in net income and an increase in inventories, off-set by a decrease in accounts receivable.

Capital expenditures and payments for purchase of interest in joint ventures totaled $31.3 million, $58.5 million and $44.6 million for fiscal years 1998, 1997, and 1996, 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, the Company incurred significant capital outlays related to construction of a new rod and bar mill which was placed into service in February 1996. The Company expects to spend approximately $18 million on capital improvements during fiscal 1999.

As part of its acquisitions of Proler and MMI, the Company assumed environmental liabilities aggregating $28.3 million as of August 31, 1998. 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. During fiscal 1998, the maturity of the facility was extended to June 2003. As of August 31, 1998, the Company also had additional lines of credit available of $75 million, $55 million of which was uncommitted. In the aggregate, the Company had borrowings outstanding under these lines of $130.1 million. The increase in borrowings outstanding under the lines since August 31, 1997 is predominantly due to additional borrowings to support joint venture operations and capital expenditures.

Pursuant to a stock repurchase program announced by the Company in May 1994 and amended in April 1998, the Company is authorized to repurchase up to 1.6 million shares of its stock when the market price of the Company's stock is not reflective of management's opinion of an appropriate valuation of the stock. Management believes that repurchasing shares under these conditions enhances shareholder value. As of August 31, 1998, a total of 448,300 shares had been purchased under this program. During fiscal 1998, the Company repurchased 196,000 shares of its stock for a total of $5.1 million.

The Company believes that the current cash balance, internally generated funds and existing credit facilities will provide adequate financing for capital expenditures, working capital, joint ventures, stock repurchases 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 within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934, all of which are subject to risks and uncertainties. One can identify these forward looking statements through the use of words such as "expect," "believe," and other words which convey a similar meaning. One can also identify these statements as they do not relate strictly to historical or current facts. They are likely to address the Company's business strategy, financial projections and results and other global factors affecting the Company's financial prospects. An example of this is the current financial crisis facing certain Asian countries and Year 2000 compliance matters. Other factors that could cause actual results to differ materially are the following: supply and demand conditions; the Company's ability to mitigate the effects of the Asian situation and foreign fiscal policies on its profitability; railroad service difficulties; competitive factors and pricing pressures from national steel companies; imports of foreign steel; availability of scrap supply; fluctuations in scrap prices and seasonality of results. One should understand that it is not possible to predict or identify all factors that could cause actual results to differ from the Company's forward looking statements. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties. Further, the Company does not assume any obligation to update any forward looking statement.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements and Schedule

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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1998, 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.

PRICEWATERHOUSECOOPERS LLP
Portland, Oregon
October 6, 1998

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

	August 31, 1998	August 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,800	$ 3,106
Accounts receivable, less allowance for doubtful accounts of $645 and $524	26,161	31,010
Accounts receivable from related parties	3,428	1,215
Inventories (Note 2)	103,136	95,154
Deferred income taxes (Note 6)	5,723	10,737
Prepaid expenses and other	8,020	3,168
TOTAL CURRENT ASSETS	150,268	144,390
NET PROPERTY, PLANT & EQUIPMENT (Note 3)	142,582	151,136
OTHER ASSETS:		
Investment in joint venture partnerships (Note 11)	103,494	91,979
Advances to (from) joint venture partnerships (Note 11)	23,957	(10,229)
Goodwill	41,017	42,230
Intangibles and other	10,022	8,480
	$ 471,340	$ 427,986
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 4)	$ 168	$ 361
Accounts payable	19,056	19,456
Accrued payroll liabilities	5,603	5,158
Current portion of environmental liabilities (Note 5)	5,552	5,787
Other accrued liabilities	8,781	8,730
TOTAL CURRENT LIABILITIES	39,160	39,492
DEFERRED INCOME TAXES (Note 6)	24,619	28,409
LONG-TERM DEBT LESS CURRENT PORTION (Note 4)	140,236	92,881
ENVIRONMENTAL LIABILITIES, NET OF CURRENT PORTION (Note 5)	22,749	24,530
OTHER LONG-TERM LIABILITIES (Note 8)	3,140	3,613
COMMITMENTS AND CONTINGENCIES (Notes 5 and 7)		
SHAREHOLDERS' EQUITY:		
Preferred stock--20,000 shares authorized, none issued		
Class A common stock--75,000 shares $1 par value authorized, 5,555 and 5,737 shares issued and outstanding	5,555	5,737
Class B common stock--25,000 shares $1 par value authorized, 4,431 and 4,445 shares issued and outstanding	4,431	4,445
Additional paid-in capital	105,124	109,994
Retained earnings	126,326	118,885
	241,436	239,061
	$ 471,340	$ 427,986

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,		
	1998	1997	1996
REVENUES	$ 353,093	$ 361,753	$ 339,352
COSTS AND EXPENSES:			
Cost of goods sold and other operating expenses	311,185	314,785	290,841
Selling and administrative	22,538	21,238	18,860
	333,723	336,023	309,701
INCOME FROM JOINT VENTURES (Note 11)	4,115	6,876	3,291
INCOME FROM OPERATIONS	23,485	32,606	32,942
OTHER INCOME (EXPENSE):			
Interest expense	(6,813)	(5,026)	(3,814)
(Loss) gain on sale of assets	(2,224)	203	209
Other income (Note 4)	791	4,388	1,452
	(8,246)	(435)	(2,153)
INCOME BEFORE INCOME TAXES	15,239	32,171	30,789
Income tax provision (Note 6)	(5,791)	(10,946)	(10,006)
NET INCOME	$ 9,448	$ 21,225	$ 20,783
BASIC EARNINGS PER SHARE	$ 0.94	$ 2.06	$ 2.25
DILUTED EARNINGS PER SHARE	$ 0.93	$ 2.05	$ 2.24

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	Retained	
	Shares	Amount	Shares	Amount	Capital	Earnings	Total
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
Class B common stock converted to Class A common stock	14	14	(14)	(14)			
Class A common stock repurchased	(196)	(196)			(4,870)		(5,066)
Net income						9,448	9,448
Dividends paid						(2,007)	(2,007)
BALANCE AT 8/31/98	5,555	$ 5,555	4,431	$ 4,431	$ 105,124	$ 126,326	$ 241,436

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, 1998	1997	1996
OPERATIONS:			
Net income	$ 9,448	$ 21,225	$ 20,783
Noncash items included in income:			
Depreciation and amortization	18,714	18,265	13,994
Deferred income taxes	1,224	(2,211)	3,517
Equity in earnings of joint ventures	(4,115)	(6,876)	(3,291)
Loss (gain) on disposal of assets	2,224	(180)	(209)
Cash provided (used) by assets and liabilities:			
Accounts receivable	2,636	(5,345)	(6,564)
Inventories	(7,982)	(2,267)	(18,893)
Prepaid expenses and other	(4,852)	2,414	(2,299)
Accounts payable	(400)	(3,929)	(2,719)
Accrued payroll and other liabilities	496	4,507	(4,031)
Environmental liabilities	(2,016)	(2,420)	
Other assets and liabilities	(2,030)	(49)	(6,127)
NET CASH PROVIDED (USED) BY OPERATIONS	13,347	23,134	(5,839)
INVESTMENTS:			
Payment for purchase of Proler (Note 12)		(42,456)	
Capital expenditures	(14,205)	(15,486)	(44,589)
Advances (to) from joint ventures	(34,198)	14,392	(324)
Investments in joint ventures	(17,104)	(550)	
Distributions from joint ventures	9,679	1,442	2,370
Capitalization of losses on assets held for sale		(1,689)	
Proceeds from sale of assets	3,086	4,887	1,839
NET CASH USED BY INVESTMENTS	(52,742)	(39,460)	(40,704)
FINANCING:			
Proceeds from sale of Class A common stock			69,850
Repurchase of Class A common stock	(5,066)	(3,919)	(966)
Dividends declared and paid	(2,007)	(2,058)	(1,827)
Increase in long-term debt	47,500	48,600	
Reduction in long-term debt	(338)	(25,087)	(20,216)
NET CASH PROVIDED BY FINANCING	40,089	17,536	46,841
NET INCREASE IN CASH	694	1,210	298
CASH AT BEGINNING OF YEAR	3,106	1,896	1,598
CASH AT END OF YEAR	$ 3,800	$ 3,106	$ 1,896

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except 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 Alaska, Washington, Oregon and California. Additionally, through joint ventures, the Company participates in the management of additional scrap collection and processing facilities in Arizona, California, Connecticut, Idaho, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, New York, and Rhode Island.

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 ten joint ventures operating in the Western and Eastern United States and a 30% interest in one joint venture in Rhode Island, 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 operations 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, 1998 and 1997, accumulated amortization aggregated $4,943 and $3,670, 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.

(in thousands, except per share amounts)

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

Earnings Per Share
The Company has adopted SFAS No. 128 "Earnings Per Share", which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). SFAS 128 replaces the presentation of primary and fully diluted EPS with basic and diluted EPS. Basic EPS is computed based upon the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The following represents a reconciliation from basic EPS to diluted EPS.

	Twelve Months ended August 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ 9,448	10,048	$ 0.94
Options		69	
Diluted EPS	$ 9,448	10,117	$ 0.93

	Twelve Months ended August 31, 1997		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ 21,225	10,305	$ 2.06
Options		72	
Diluted EPS	$ 21,225	10,377	$ 2.05

	Twelve Months ended August 31, 1996		
	Income (Numerator)	Shares (Denominator)	Per-share Amount
Basic EPS	$ 20,783	9,238	$ 2.25
Options		58	
Diluted EPS	$ 20,783	9,296	$ 2.24

Options with an exercise price greater than the average market price were not included in the computation of diluted earnings per share. These options totaled 98 in 1998.

Interest and Income Taxes Paid
The Company paid $6,535, $5,093 and $5,016 in interest during fiscal years 1998, 1997 and 1996, respectively. For the same periods, the Company paid $7,440, $7,283 and $10,703 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.

(in thousands, except per share amounts)

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.

Reclassifications
Certain reclassifications of prior year balances have been made for consistent presentation with the current year.

Note 2 - Inventories:

Inventories consist of the following:

	August 31, 1998	August 31, 1997
Scrap metals	$ 28,952	$ 26,897
Work in process	13,192	24,358
Finished goods	44,276	28,109
Supplies	16,716	15,790
	$ 103,136	$ 95,154

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 $5,811 and $8,039 at August 31, 1998 and 1997, respectively.

The production and accounting process utilized by the Company to record scrap inventory quantities relies on significant estimates which can be affected by weight imprecisions, moisture and other factors.

Note 3 - Property, Plant and Equipment:

Property, plant and equipment consist of the following:

	August 31, 1998	August 31, 1997
Land and improvements	$ 33,034	$ 32,580
Buildings and leasehold improvements	15,835	15,757
Machinery and equipment	216,649	212,380
Construction in progress	3,918	4,846
	269,436	265,563
Less accumulated depreciation	(126,854)	(114,427)
	$ 142,582	$ 151,136

Capitalized interest costs associated with construction were $292 in fiscal year 1997.

(in thousands, except per share amounts)

Note 4 - Long-Term Debt:

Long-term debt consists of the following:

	August 31, 1998	August 31, 1997
Bank unsecured revolving credit facility, $200,000 maximum	$ 130,100	$ 82,600
Tax-exempt economic development revenue bonds due January 2022, interest payable monthy at variable rate (3.5% at August 31, 1998), secured by a letter of credit	7,700	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	2,096	2,188
Other	508	754
Total long-term debt	140,404	93,242
Less portion due within one year	168	361
Long-term debt less current portion	$ 140,236	$ 92,881

At August 31, 1998, 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, 1998, such rates averaged 5.8%. Interest is payable upon maturity of each advance under the line. The facility matures in June 2003, at which time all principal amounts outstanding are due.

In addition to the above facility, the Company has additional unsecured lines of credit totaling $75,000, of which $20,000 is committed.

The committed bank credit facilities and other borrowings contain financial covenants, including covenants related to net worth, interest coverage and leverage.

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

1999	$ 168
2000	192
2001	205
2002	220
2003	130,333
Thereafter	9,286
	$ 140,404

Note 4 - Long-Term Debt (Continued):

In February 1998, the Company entered into interest rate swap agreements with two of its banks for the purpose of managing its exposure to adverse movements in interest rates and fixing the cost of various debt instruments. The Company does not use financial instruments for trading purposes, and is not a party to leveraged derivatives. Pursuant to the swap agreements, the Company exchanged its floating rate interest obligations of $50,000 notional principal amount for a fixed interest obligation of 5.55% for three years. The differential paid or received on interest rate agreements is recognized as an adjustment to interest expense.

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.

On June 15, 1998, the FASB issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133). FAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Management of the Company anticipates that, due to its limited use of derivative instruments, the adoption of FAS 133 will not have a significant effect on the Company's results of operations or its financial position.

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, 1998 aggregated $20.2 million.

General Metals of Tacoma (GMT), 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). GMT and well over 60 other parties were named potentially responsible parties (PRP) for the investigation and clean up of contaminated sediment along the Hylebos Waterway. GMT and five other PRPs voluntarily have entered into an Administrative Order on Consent with the EPA to fund a pre-remedial study of sediment contamination and remediation alternatives. GMT's share of the study, which is now expected to be completed in late 1999, 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 (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 $8.1 million remained outstanding on August 31, 1998. Also, Proler's joint ventures 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.

(in thousands, except per share amounts)

Note 5 - Environmental Liabilities (Continued):

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 preliminary site investigations 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 PRPs 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 1996 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 income taxes is as follows:

	August 31,		
	1998	1997	1996
Current:			
Federal	$ 3,075	$ 5,361	$ 7,235
State	858	786	721
Deferred:			
Federal	1,633	4,199	1,678
State	225	600	372
	$ 5,791	$ 10,946	$ 10,006

(in thousands, except per share amounts)

Note 6 - Income Taxes (Continued):

Deferred tax assets and liabilities are as follows:

	August 31, 1998	August 31, 1997
AMT carryforward	$ 1,031	
Segment held for sale	(853)	$ 3,707
Inventory valuation methods	2,810	3,380
Employee benefit accruals	2,777	3,137
State income tax and other	(42)	513
Net current deferred tax assets	$ 5,723	$ 10,737
Accelerated depreciation and basis differences	$ 36,688	$ 40,798
Environmental liabilities	(11,274)	(11,891)
Net operating loss carryforwards	(10,856)	(10,856)
Other	(795)	(498)
	13,763	17,553
Deferred tax asset valuation allowance	10,856	10,856
Net non-current deferred tax liabilities	$ 24,619	$ 28,409

Upon the acquisition of Proler, the Company acquired net operating loss carryforwards of approximately $31,019 which expire in the years 2007 through 2012, and minimum tax credits carryforwards of $742, all of which arose in Proler's pre-acquisition years. Under federal income tax rules, utilization of the Company's acquired net operating loss carryforwards and acquired minimum tax credits from Proler is limited to future earnings of Proler and are further limited to approximately $2,395 per year. No benefit for the net operating loss carryforwards or the acquired minimum tax credits has been recognized in the financial statements.

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

	August 31, 1998	August 31, 1997	August 31, 1996
Federal statutory rate	35%	35%	35%
Foreign sales corporation	(3)	(5)	(5)
State taxes, net of credit	5	3	2
Other	1	1	1
	38%	34%	33%

(in thousands, except 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 $6,726, $9,296 and $7,943 for 1998, 1997 and 1996, respectively. In 1993, the Company signed a five-year time-charter agreement for one vessel which expired in June 1998. The agreement guaranteed the ship owner a residual market value of $2,500 at the end of the time-charter. Upon expiration of the time charter, the Company paid the guaranteed residual and entered into an additional five year time charter. The Company has accounted for the transaction as a capital lease, as ownership of the vessel is transferred at expiration of the time-charter. The Company entered into two additional seven-year time charters in May 1995 for other vessels. 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 totaling $15,825, $13,856 and $8,513 in 1998, 1997 and 1996, 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 Expirations	Current Annual Rent
Scrap Operations:		
Portland facility and marine terminal	2063	$1,056
Sacramento facility	2003	80
Administrative offices	2002 - 2006	254

	Minimum Rents	Sublease Income	Net Minimum Rents
1999	1,390	(38)	1,352
2000	1,390	(38)	1,352
2001	1,390	(38)	1,352
2002	1,313		1,313
2003	1,236		1,236
Thereafter	63,811		

The rent expense was $1,330, $1,351 and $1,274 for 1998, 1997 and 1996, 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.

Note 7 - Related Party Transactions (Continued):

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 totaled $1,223, $1,046 and $816 in 1998, 1997 and 1996, 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 years ended August 31, 1998 and 1997, charges incurred for these sub-charters aggregated $3,151 and $871, offset by income of $3,099 and $747, respectively. 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.

Included in other assets are $3,340 and $1,180 notes receivable from joint venture partners at August 31, 1998 and 1997, respectively. Interest income from both these notes and advances to joint venture partnerships totaled $944, $580, and $309 for fiscal years 1998, 1997 and 1996, respectively.

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 in 1996. No payments to ECC were made in fiscal 1997 and 1998.

(in thousands, except per share amounts)

Note 8 - Employee Benefits:

In accordance with union agreements, the Company contributed to union pension plans $2,065, $2,164 and $1,782, in 1998, 1997 and 1996, 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 $1,060, $1,028 and $1,268 for 1998, 1997 and 1996, respectively.

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 change in benefit obligation, change in plan assets and funded status at August 31, 1998 and 1997 in accordance with SFAS 132.

	August 31, 1998	August 31, 1997
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 4,086	$ 3,546
Service cost	634	529
Interest cost	307	258
Actuarial loss	443	85
Acquisition		(1)
Benefits paid	(278)	(331)
Benefit obligation at end of year	$ 5,192	$ 4,086
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 4,162	$ 3,350
Actual return on plan assets	(336)	1,143
Employer contribution	331	
Benefits paid	(278)	(331)
Fair value of plan assets at end of year	$ 3,879	$ 4,162
Funded status:		
Plan assets greater than or (less) than benefit obligation	$ (1,314)	$ 76
Unrecognized actuarial loss (gain)	748	(395)
Unrecognized prior service cost	67	71
Accrued benefit cost	$ (499)	$ (248)

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

	August 31, 1998	1997	1996
Weighted average discount rate	7.0%	7.5%	7.5%
Expected rate of investment return	9.0%	9.0%	9.0%
Expected rate of compensation increase	4.0%	4.5%	4.5%

(in thousands, except per share amounts)

Note 8 - Employee Benefits (Continued):

	August 31,		
	1998	1997	1996
Components of net periodic pension benefit cost:			
Service cost	$ 634	$ 529	$ 367
Interest cost	307	257	219
Expected return on plan assets	(363)	(299)	(248)
Amortization of past service cost	4	4	4
Recognized actuarial loss	1		
Net periodic pension benefit cost	$ 583	$ 491	$ 342

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,		
	1998	1997	1996
Restricted trust fund	$ 989	$ 684	$ 459
Deferred compensation expense	238	490	545
Long-term pension liability	1,195	1,343	1,249
Pension cost	105	149	136

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 123) which requires the use of option valuation models. 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.

(in thousands, except per share amounts)

Note 9 - Stock Incentive Plan (Continued):

Pro forma information for fiscal years 1998 and 1997 regarding net income and earnings per share is required by SFAS 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 assumptions:

	August 31, 1998	1997	1996
Risk-free interest rate	5.5%	6.6%	6.6%
Dividend yield	.01%	.01%	.01%
Weighted average expected life of options	7.5 Years	7.5 Years	7.5 Years
Volatility	.42	.43	.46

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:

	August 31, 1998	1997	1996
Pro forma net income	$ 8,975	$ 20,945	$ 20,736
Pro forma earnings per share	$ 0.89	$ 2.02	$ 2.23

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

	1998		1997		1996	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding-beginning of year	430	$ 22.33	295	$ 21.10	181	$ 19.11
Options granted	98	$ 24.25	137	$ 25.00	114	$ 24.25
Options canceled	(5)	$ 24.55	(2)	$ 24.25		
Outstanding - end of year	523	$ 22.67	430	$ 22.33	295	$ 21.10
Exercisable at end of year	199	$ 20.96	115	$ 19.99	56	$ 18.85
Weighted-average fair value of options granted during year	$ 13.33		$ 14.11		$ 14.37	

Exercise prices for options outstanding as of August 31, 1998 ranged from $18 to $25. The weighted-average remaining contractual life of those options is 7.8 years.

(in thousands, except per share amounts)

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 Alaska, Washington, Oregon, 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 $109,646, $117,861 and $137,701 in 1998, 1997 and 1996, respectively. In 1996, sales to one customer accounted for 12% of consolidated revenues.

	August 31,		
	1998	1997	1996
Net revenues:			
Scrap operations	$ 217,915	$ 236,392	$ 233,484
Steel operations	191,346	183,740	160,019
Intersegment sales	(56,168)	(58,379)	(54,151)
	$ 353,093	$ 361,753	$ 339,352
Income from operations:			
Scrap operations	$ 16,473	$ 27,399	$ 29,587
Steel operations	9,838	5,493	6,303
Income from joint ventures	4,115	6,876	3,291
Corporate	(6,941)	(7,162)	(6,239)
	$ 23,485	$ 32,606	$ 32,942
Total assets:			
Scrap operations	$ 241,507	$ 208,266	$ 133,324
Steel operations	184,916	194,649	191,823
Corporate	44,917	25,071	12,342
	$ 471,340	$ 427,986	$ 337,489
Depreciation and amortization expense:			
Scrap operations	$ 8,190	$ 7,573	$ 6,891
Steel operations	10,292	10,464	6,907
Corporate	232	228	196
	$ 18,714	$ 18,265	$ 13,994
Capital expenditures:			
Scrap operations	$ 12,481	$ 6,295	$ 7,695
Steel operations	1,517	8,834	36,323
Corporate	207	357	571
	$ 14,205	$ 15,486	$ 44,589

(in thousands, except per share amounts)

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:

	Year Ended August 31,	
	1998	1997
Current assets	$ 145,958	$ 78,711
Noncurrent assets	109,309	66,482
	$ 255,267	$ 145,193
Current liabilities	$ 69,998	$ 39,231
Noncurrent liabilities	15,197	6,146
Minority interest		1,509
Partners' equity	170,072	98,307
	$ 255,267	$ 145,193

	August 31,		
	1998	1997	1996
Revenues	$ 408,557	$ 352,515	$ 43,883
Income from operations	$ 6,309	$ 14,399	$ 7,691
Net income before taxes	$ 8,080	$ 14,156	$ 6,636

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 $241, $214 and $184 in 1998, 1997 and 1996, respectively.

Advances from and to joint venture partnerships from the Company are included in noncurrent assets and liabilities above. Certain advances 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.

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, 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
Diluted 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

(in thousands, except per share amounts)

Note 13 - Disposal of Lathrop, California Facility:

In May 1998, the Company disposed of a tin scrap processing facility in Lathrop, California. The facility was acquired as part of the Proler acquisition (Note 12). The sale resulted in a gain of $1.1 million, of which $.8 million was recorded as a reduction in cost of goods sold and $.3 million as a gain on sale of assets.

Note 14 - Quarterly Financial Data (Unaudited):

	Fiscal Year 1998			
	First	Second	Third	Fourth
Net revenues	$ 105,403	$ 81,895	$ 80,918	$ 84,877
Income from operations	10,562	6,802	5,519	602
Net income	6,289	3,777	2,569	(3,187)
Diluted earnings per share	.61	.37	.26	(.32)

	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
Diluted earnings per share	.27	.13	.81	.84

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 1999 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 1999 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 1999 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 1999 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 1999 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 28 of this Report.

2. All schedules 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-Q for the quarter ended May 31, 1998, 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. Filed as Exhibit 9.3 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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 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. Filed as Exhibit 10.6 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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. Filed as Exhibit 10.8 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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. Filed as Exhibit 10.10 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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 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 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 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 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 June 22, 1998 between the Registrant and Trans-Pacific Shipping Co.

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. 4 to M/V Jade Pacific Uniform Time Charter Agreement dated October 31, 1997 between the Registrant and Trans-Pacific Shipping Co. Filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended November 30, 1997, 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.

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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.

10.26 Vessel Purchase and Sale Agreement dated June 22, 1998 between the Registrant and Trans-Pacific Shipping Co.

21.1 Subsidiaries of Registrant.

23.1 Consent of Independent Accountants.

24.1 Powers of Attorney

*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, 1998.

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 24, 1998	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 24, 1998 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 - ---------------------------------- Carol S. Lewis	Director
*SCOTT LEWIS - ---------------------------------- Scott Lewis	Director
*KENNETH M. NOVACK - ---------------------------------- Kenneth M. Novack	Director
*ROBERT W. PHILIP - ---------------------------------- Robert W. Philip	Director
*JEAN S. REYNOLDS - ---------------------------------- Jean S. Reynolds	Director
*DORI SCHNITZER - ---------------------------------- Dori Schnitzer	Director
*GARY SCHNITZER - ---------------------------------- Gary Schnitzer	Director
*ROBERT S. BALL - ---------------------------------- Robert S. Ball	Director
*WILLIAM S. FURMAN - ---------------------------------- William S. Furman	Director
*RALPH R. SHAW - ---------------------------------- Ralph R. Shaw	Director

*By: /s/ BARRY A. ROSEN

Attorney-in-fact, Barry A. Rosen

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-Q for the quarter ended May 31, 1998, 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. Filed as Exhibit 9.3 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.
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 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. Filed as Exhibit 10.6 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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. Filed as Exhibit 10.8 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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. Filed as Exhibit 10.10 to Registrant's Form 10-K for the fiscal year ended August 31, 1997 and incorporated herein by reference.

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 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 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 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 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 June 22, 1998 between the Registrant and Trans-Pacific Shipping Co.

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.

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24.1	Powers of Attorney.

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1. Shipbroker

N/A

THE BALTIC AND INTERNATIONAL MARITIME CONFERENCE
UNIFORRM TIME-CHARTER
(Box Layout 1974) Code name: "BALTIME 1939"
PART I

2. Place and date.
Portland, Oregon June 22, 1998

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3. Owners/Place of business
Trans-Pacific Shipping Co.
80 Broad Street
Monrovia, Liberia

4. Charterers/Place of business
Schnitzer Steel Industries, Inc.
3200 NW Yeon Avenue
P.O. Box 10047
Portland, OR 97206-0047

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5. Vessel's name
M/V PACDUKE

6. GRT/NRT
15822 / 7486

---

7. Class
ABS

8. Indicated horse power
9714

---

9. Total tons d.w. (abt.) on Board of Trade summer freeboard
26,670 MT

10. Cubic feet grain/bale capacity
32,866 / 32,089

---

11. Permanent bunkers (abt.)

---

12. Speed capability in knots (abt.) on a consumption in tons (abt.) of
13.5 knots/28.5 metric tons (abt.) IFO (CST180) and 1.80 metric tons (abt.) MDO

---

13. Present position

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14. Period of hire (Cl. 1)

Sixty (60) calendar months.

15. Port of delivery (Cl.1)
N/A

16. Time of delivery (Cl. 1)
June 22, 1998

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17. (a) Trade limits (Cl. 2)

See also Paragraph 56 of attached rider.

(b) Cargo exclusions specially agreed

See also Paragraph 27 of attached rider.

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18. Bunkers on re-delivery (state min. and max. quantity) (Cl. 5)
N/A

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19. Charter hire (Cl. 6)

See Box 20.

20. Hire payment (state currency, method and place of payment: also beneficiary and bank account) (Cl. 6)
USD2.500,000 in advance; hire payable
to Owner's Bank:
Wells Fargo Bank, Portland, Oregon USA
ABA: 121000248
Payable to Lasco Shipping Co.
Account 4159 595099

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21. Place or range of re-delivery (Cl. 7)

N/A

22. War (only to be filled in if Section (O) agreed) Cl. 21)

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23. Cancelling date (Cl. 22)

N/A

24. Place of arbitration (only to be filled in if place other than London agreed) (Cl. 23)
Portland, Oregon

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25. Brokerage commission and to whom payable (Cl. 25)

N/A

26. Numbers of additional clauses covering special provisions, if agreed
See attached Rider clauses 26-56

It is mutually agreed that this Contract shall be performed subject to the conditions contained in this Charter which shall include Part I as well as Part II. In the event of a conflict of conditions, the provisions of Part I shall prevail over those of part II to the extent of such conflict.

Signature (Owners)

Signed: DORI SCHNITZER

Signature (Charterers)

Signed: ROBERT PHILIP

"Baltime 1939" Uniform time-Charter (Box Layout 1974)

It is agreed between the party mentioned in Box 3 as owners of the Vessel named in box 5 of the gross/net Register tonnage indicated in Box 6, classed as stated in Box 7 and of indicated horse power as stated in Box 8, carrying about the number of tons deadweight indicated in Box 9 on Board of Trade summer freeboard inclusive of bunkers, stores, provisions and boiler water, having as per builder's plan a cubic-feet grain/bale capacity as stated in Box 10, exclusive of permanent bunkers, which contain about the number of tons stated in Box 11, and fully loaded capable of steaming about the number of knots indicated in Box 12 in good weather and smooth water on a consumption of about the number of tons best Welsh coal or oil-fuel stated in Box 12, now in position as stated in Box 13 and the party mentioned as Charterers in Box 4, as follows:

1. Period/Port of Delivery/Time of Delivery. The Owners let, and the Charterers hire the Vessel for a period of the number of calendar months indicated in Box 14 from the time (not a Sunday or a legal Holiday unless taken over) the Vessel is delivered and placed at the disposal of the Charterers between 9 a.m. and 6 p.m., or between 9 a.m. and 2 p.m. if on Saturday, at the port stated in Box 15 in such available berth where she can safely lie always afloat, as the Charterers may direct, she being in every way fitted for ordinary cargo service.

The vessel is to be delivered at the time indicated in Box 16.

2. Trade. The Vessel to be employed in lawful trades for the carriage of lawful merchandise only between good and safe ports or places where she can safely lie always afloat within the limits stated in Box 17.

No live stock nor injurious, inflammable or dangerous goods (such as acids, explosives, calcium carbide, ferro silicon, naphtha, motor spirit, tar, or any of their products) to be shipped.

SEE PARAGRAPH 27 OF ATTACHED RIDER.

3. Owners to Provide. The Owners to provide and pay for all provisions and wages, for insurance of the Vessel, for all deck and engine-room stores and maintain her in a thoroughly efficient state in hull and machinery during service.

4. Charterers to Provide. The Charterers to provide and pay for all coals, including galley coal, oil-fuel, water for boilers, port charges, pilotages (whether compulsory or not), canal steersmen, boatage, lights, tug-assistance, consular charges (except those pertaining to the Master, Officers and Crew), canal, dock and other dues and charges, including any foreign general municipality or state taxes, also all dock, habour and tonnage dues at the ports of delivery and re-delivery (unless incurred through cargo carried before delivery or after re-delivery), agencies, commissions, also to arrange and pay for loading, trimming, stowing (including dunnage and shifting boards, excepting any already on board), unloading, weighing, tallying and delivery of cargoes, surveys on hatches, meals supplied to officials and men in their service and all other charges and expenses whatsoever including detention and expenses through quarantine (including cost of fumigation and disinfection).

All ropes, slings and special runners actually used for loading and discharging and any special gear, including special ropes, hawsers and chains required by the custom of the port for mooring to be for the Charterers' account. The Vessel to be fitted with as capable of handling lifts up to a minimum of 15 tons.

5. Bunkers. The Charterers at port of delivery to take over and pay for all coal or oil-fuel remaining in the Vessel's bunkers at current price at the respective ports.

6. Payment. Payment of hire to be made in cash, in the currency stated in Box 20, without discount.

7. Re-delivery. Not Applicable

8. Cargo Space. The whole reach and burthen of the Vessel, including lawful deck-capacity to be at the Charterers' disposal, reserving proper and sufficient space for the Vessel's Master, Officers, Crew, tackle, apparel, furniture, provisions and stores.

9. Master. The Master to prosecute all voyages with the utmost dispatch and to render customary assistance with the Vessel's Crew. The Master to be under the orders of the Charterers as regards employment, agency, or other arrangements. The Charterers to indemnify the Owners against all consequences or liabilities arising from the Master, Officers or Agents signing Bills of Lading or other documents or otherwise complying with such orders, as well as from any irregularity in the Vessel's papers or for overcarrying goods. The Owners not to be responsible for shortage, mixture, marks, nor for number of pieces or packages, nor for damage to or claims on cargo caused by bad stowage or otherwise.

If the Charterers have reason to be dissatisfied with the conduct of the Master, Officers, or Engineers, the Owners, on receiving particulars of the complaint, promptly to investigate the matter, and if necessary and practicable, to make a change in the appointments.

10. Directions and Logs. The Charterers to furnish the Master with all instructions and sailing directions with copy to Owners and the Master and Engineer to keep full and correct logs accessible to the Charterers or their Agents.

11. Suspension of Hire etc. In the event of the Vessel being driven into port or to anchorage through stress of weather, trading to shallow harbours or to rivers or ports with bars or suffering an accident to her cargo, any detention of the Vessel and/or expenses resulting from such detention to be for the Charterers' account even if such detention and/or expenses, or the cause by reason of which either is incurred, be due to, or be contributed to by, the negligence of the Owners' servants.

12. Cleaning Boilers. Cleaning of boilers whenever possible to be done during service, but if impossible the Charterers to give the Owners necessary time for cleaning.

13. Responsibility and Exemption. The Owners only to be responsible for delay in delivery of the Vessel or for delay during the currency of the Charter and for loss or damage to goods onboard., if such delay or loss has been caused by want of due diligence on the part of the Owners or their Manager in making the Vessel seaworthy and fitted for the voyage or any other personal act or omission or default of the Owners or their Manager. The Owners not to be responsible in any other case nor for damage or delay whatsoever and howsoever caused even if caused by the neglect or default of their servants. The Owners not to be liable for loss or damage arising or resulting from strikes, lockouts or stoppage or restraint of labour (including the Master, Officers or crew) whether partial or general.

The Charterers to be responsible for loss or damage caused to the Vessel or to the Owners by goods being loaded contrary to the terms of the Charter or by improper or careless bunkering or loading, stowing or discharging of goods or any other improper or negligent act on their part or that of their servants.

14. Advances. The Charterers or their Agents to advance to the Master, if required, necessary funds for ordinary disbursement for the Vessel's account at any port charging only interest at 6 per cent, p. a., such advances to be deducted from hire.

15. Excluded Ports. The Vessel not to be ordered to nor bound to enter: a) any place where fever or epidemics are prevalent or to which the Master, Officers and Crew by law are not bound to follow the Vessel; b) any ice-bound place or any place where lights, lightships, marks and buoys are or are likely to be withdrawn by reason of ice on the Vessel's arrival or where there is risk that ordinarily the Vessel will not be able on account of ice to reach the place or to get out after having completed loading or discharging. The Vessel not to be obliged to force ice. If on account of ice the Master considers it dangerous to remain at the loading or discharging place for fear of the Vessel being frozen in and/or damaged, he has liberty to sail to a convenient open place and await the Charterers' fresh instructions. Unforeseen detention through any of above causes to be for the Charterers' account.

16. Loss of Vessel. Deleted

17. Overtime. The Vessel to work day and night if required. The Charterers to refund the Owners their outlays for all overtime paid to Officers and Crew according to the hours and rates stated in the Vessel's articles.

18. Lien. The Owners to have a lien upon all cargoes and sub-freights belonging to the Time-Charterers and any Bill of Lading freight for all claims under this Charter, and the Charterers to have a lien on the Vessel for all moneys paid in advance and not earned.

19. Salvage. All salvage and assistance to other vessels to be for the Owners' and the Charterers' equal benefit after deducting the Master's and Crew's proportion and all legal and other expenses including hire paid under the charter for time lost in the salvage, also repairs of damage and coal or oil-fuel consumed. The Charterers to be bound by all measures taken by the Owners in order to secure payment of salvage and to fix its amount.

20. Sublet. The Charterers to have the option of subletting the Vessel, giving due notice to the Owners, but the original Charterers always to remain responsible to the Owners for due performance of the Charter.

21. War. Deleted

22. Cancelling. Deleted

23. Arbitration. Any dispute arising under the Charter to be referred to arbitration in Portland, Oregon, USA (or such other place as may be agreed according to Box 24), one Arbitrator to be nominated by the Owners and the other by the Charterers, and in case the Arbitrators shall not agree then to the decision of an Umpire to be appointed by them, the award of the Arbitrators or the Umpire to be final and binding upon both parties.

24. General Average. General Average to be settled according to York/Antwerp Rules, 1974, as amended in 1990. Hire not to contribute to General Average.

25 Commission. Deleted.

26. Chamber of Shipping Clause Paramount, New Jason Clause, Both-to-Blame Collision Clause, War Risk Clause (1952), U.S.A. Clause Paramount (as applicable) and Protection & Indemnity Bunkering Clause, as attached, are fully incorporated in this Charter Party and the full text of each is to be included in all Bills of Lading issued under this Charter Party. Any amendments to or revisions of any of these clauses which have been recommended by Owners' P and I Club are likewise to be incorporated. Charterers shall indemnify Owners for all obligations of Owners and for all costs and expenses incurred by Owners under Bills of Lading issued by Vessel, Charterers or their agents, which would not have been incurred by Owners under the terms and conditions of this Charter.

27. Cargo to be lawful, harmless, non-hazardous bulk and general. cargoes excluding dangerous cargo (as set forth in the IMO International Maritime Dangerous Goods Code), hazardous and inflammable cargoes, mahogany logs, livestock, asphalt, petroleum products (except Charterers to be permitted to carry petcoke), tar, pitch, resins, explosives, weapons, arms, ammunition, nuclear and radioactive materials and products, nuclear fuels and waste, fishmeal, cotton, salt, hides, creosoted goods, turnings/ borings/shavings, sponge iron, DRI pellets, hypochlorite and calcium carbide. All cargoes, including but not limited to concentrates and petcoke, to be carried in accordance with latest IMO, Liberian, USCG and country of loading regulations. Charterers' option to load containers underdeck only (not on deck) one tier high in holds atop other suitable cargo upon properly made floor, provided containers are stowed and secured in accordance with the Master's instructions. It is understood the vessel is not container fitted.

Scrap (excluding turnings, borings and shavings) is permitted to be carried, provided it is loaded in accordance with the Master's requirements especially as these requirements relate to protecting the vessel from damage during loading and discharging. All scrap is to be lowered to the tank tops until a cushion of a minimum depth of one meter is achieved. No magnets are to be attached to the vessel's gear.

Carriage of deck cargo is always to be at the Master's discretion and Master/Owners may reject deck cargo if the Master/Owners deem that it will result in either insufficient or excessive GM.

All Bills of Lading in respect deck cargo to be claused: "Stowed on deck.
Shipped on deck at shipper's/cargo owner's risk and responsibility.
Carriage on deck without liability for loss or damage howsoever caused."

All cargo to be loaded, stowed, trimmed, secured and discharged at Charterers' time, risk and expense.

28. Present War Risk Insurance to be for Charterers' account. Any increase in War Risk Insurance and Crew War Bonus, if any, to be for Charterers' account. Order of Charterers' War Risk Underwriters within the scope of the insurance contract always to be followed.

29. Any stevedore damage to the vessel sustained during the term of this Charter Party to be for Charterers' account. Master to notify Charterers or their agents of any stevedore damage within twenty-four (24) hours after detection of damage. Unseaworthiness damage caused by stevedores, cargo or other cause for which Charterers are responsible to be repaired by Charterers on the spot before vessel's departure.

30. Charterers may load and/or discharge cargo from vessel's holds with magnets. No magnets may be used on the vessel's gear.

31. If the vessel is sold or chartered to the U.S. government by order or request of the U.S. Government or any qualified department or agency, Charterers are to receive any and all proceeds from any such sale or charter.

32. Vessel to work night and day if required by Charterers and all vessel's loading and discharging equipment to be at Charterers' disposal during loading and discharging. Owners agree that Charterers may request the crew to open and close hatches and if crew is willing to do such work for Charterers, it shall be for Charterers' account, at such cost to Charterers as the Master and Charterers may agree. Shore winchmen to be paid by Charterers.

33. Vessel to be always left in seaworthy trim to the Master's satisfaction during her sailing and/or shifting between all berths and ports.

34. Charterers to reimburse Master for all expenses incurred by Master in providing gratuities to government officials, port officials and servants of Charterers during the term of the Charter Party.

35. Charterers shall bear the risk of damage to cargo during loading, stowing, and discharging operations caused by negligence of stevedores.

36. The Master to be under the orders of the Charterers as regards employment, agency or other arrangements. Charterers are

to load, stow, trim, and discharge cargo at their risk and expense under the Master's supervision.

37. The Bills of Lading quantity to be decided by Shipper's tally and measurement. Owners not to be responsible for number of pieces and quantity and tally to be arranged and paid for by Charterers at both loading and discharging ports.

38. Financial Responsibility in Respect of Pollution

(1) Owners warrant that throughout the currency of this Charter they will provide the vessel with the following certificates:

(a) Certificates issued pursuant to the Civil Liability Convention 1969 ("C.L.C.").

(b) Certificates issued pursuant to Section 311(p) of the U.S. Federal Water Pollution Control Act, as amended (Title 33 U.S. Code, Section 1321(p)).

(c) Any and all other Certificates of Financial Responsibility required by U.S. or other laws.

(2) Notwithstanding anything herein to the contrary:

(a) Save as required for compliance with paragraph 1 hereof, Owners shall not be required to establish or maintain financial security or responsibility in respect of oil or other pollution damage to enable the vessel lawfully to enter, remain in or leave any port, place, territorial or contiguous waters of any country, state or territory in performance of this Charter Party.

(b) Charterers shall indemnify Owners and hold them harmless in respect of any loss, damage, liability or expense (including but not limited to the cost of any delay incurred by the vessel as a result of any failure by Charterers promptly to give alternative voyage orders) whatsoever and howsoever arising which Owners may sustain by reason of the vessel's inability to perform as aforesaid.

(c) Owners shall not be liable for any loss, damage, liability or expense whatsoever and howsoever arising which Charterers and/or the holders of any Bill of Lading issued pursuant to this Charter may sustain by reason of the vessel's inability to perform as aforesaid.

(3) Charterers warrant that the terms of this Clause will be incorporated effectively into any Bill of Lading issued pursuant to this Charter Party.

39. Charterers have the right to load cargo on deck according to international regulations and always within the limit of the vessel's seaworthiness, at their risk and expense, crew giving all possible assistance.

40. Vessel to have a valid cargo gear certificate issued by the American Bureau of Shipping (or other recognized Classification Society) for annual and quadrennial surveys. If there are special cargo gear requirements or regulations imposed by any of the countries to which the vessel will be deployed, Charterers' shall be responsible for complying with such requirements or regulations, and any expenses resulting thereby shall be for Charterers' account.

41. Owners shall not be responsible, and the vessel shall not be placed off hire, if the vessel is boycotted by shore labor for any reason or arising from the vessel's flag (or because of the terms and conditions under which the members of the crew were employed).

42. It is understood that the vessel will always possess a valid Safety Equipment Certificate issued by the American Bureau of Shipping (or other recognized Classification Society authorized to issue same by the government under whose laws the vessel is documented) on behalf of the government where the vessel is documented, which at the inception of this Charter Party shall be the Republic of Liberia. There is no other obligation of the vessel to comply with safety regulations and/or requirements in effect at ports of loading and/or discharging, and if the vessel does not meet such safety rules and regulations, this shall not be Owners' responsibility, but is Charterers' responsibility, and the vessel shall remain on hire even though these regulations or requirements are not complied with and any additional expenses resulting thereby shall be for Charterers' account.

43. Deck stanchions and deck lashing materials, if required, to be supplied by Charterers at their expense. Any deck stanchions and deck lashing materials presently on board to be at Charterers' disposal. Charterers to pay for the cost of lashing and unlashing the deck cargo.

44. It shall be at the Master's absolute discretion whether to allow fresh or saltwater in any double bottom fuel oil tank at any time.

45. Vessel to carry a deckload of lumber or logs at a height in every case always determined by the decision and absolute discretion of the Master. If the Master decides he has to carry

less than the height suggested by the Shipyard, there shall be no penalty to Owners.

46. Vessel is suitable for carrying full cargoes of heavy grain and/or grain products in bulk in all holds without requiring any shifting boards if the grain/grain products is loaded in accordance with the vessel's approved grain loading manual.

47. Master is to forward promptly to Charterers completed log abstracts and port logs on the Charterers' forms for both deck and engine for each passage.

48. Any intermediate hold cleaning to be carried out at Charterers' time, risk and expense. The crew is to be considered servants of Charterers whenever performing any intermediate hold cleaning. Freshwater used for any intermediate hold cleaning is to be arranged and paid for by Charterers.

49. Watchmen for vessel, cargo and/or as required by port authorities to be for Charterers' account.

50. Charterers are to have the privilege of flying their house flag.

51. It is mutually agreed that claims for loss or damage to cargo due to bad stowage or handling including slackage/ullage to be 100 percent Charterer's account, and claims for loss or damage to cargo to be 100 percent Owners' account if caused by want of due diligence on the part of the Owners or their manager in making the vessel seaworthy and fitted for the voyage or any other personal act or omission or default of the Owners or their manager.

52. Any delay, expense, and/or fine incurred on account of smuggling to be for Charterers' account if caused by Charterers' supercargo and/or their staff or agents, or to be for Owners' account if caused by officers and/or crew.

53. Vessel to be in possession of the necessary certificate to comply with safety and health regulations and all current requirements at all ports of call in U.S., British Columbia, Japan, Republic of Korea, and Taiwan, during the currency of this Charter.

54. Owners will request Master to undertake best efforts to cooperate with Charterers for best stowage of cargo.

55. Charterers warrant that they will undertake to obtain the original endorsed Bill of Lading for each lot of cargo from each

receiver claiming delivery of goods discharged from the vessel. In the event the original endorsed Bill of Lading is not obtained by Charterers, Charterers agree to obtain a properly executed letter of guarantee signed by the receiver(s) and endorsed by the Charterers by issuing a single letter of guarantee for all cargoes in lieu of the original endorsed Bill(s) of Lading. Charterers hereby agree to indemnify and hold Owners harmless from any and all claims, cost, expense and liability resulting from Charterers' failure to obtain the original Bill(s) of Lading or properly executed letters of guarantee.

56. Charterers may trade the vessel world wide between safeports, always safely afloat, always within IWL of vessel's underwriters, excluding war and warlike zones and excluding Cuba, Nicaragua, El Salvador, Honduras, Guatemala, Finland, Sweden, the republics of the former Yugoslavia, Albania, Israel, Syria, Lebanon, Libya, Jordan, Saudi Arabia, Ethiopia, Somalia, Sudan, Yemen, Oman, Arabian Gulf and adjacent waters (including the Gulf of Oman north of 24 N Lat), Zaire, Namibia, Liberia, Senegal to Nigeria (but Ivory Coast is permitted), Angola (including Cabinda), Mozambique, Far Eastern ports of C.I.S., North Korea, Viet Nam, Kampuchea, Australia and New Zealand. If the governments of USA, South Korea, Liberia and/or Myanmar prohibit trade to any country or area not excluded above, vessel/Owners not obligated to trade to such prohibited countries or areas. Orders of vessel's underwriters always to be followed.

VESSEL PURCHASE AND SALE AGREEMENT

THIS VESSEL PURCHASE AND SALE AGREEMENT (this "Agreement") is entered into as of June 22, 1998 by and between Trans-Pacific Shipping Co. ("SELLER") and Schnitzer Steel Industries, Inc., ("BUYER").

RECITALS

A. SELLER is the owner of the vessel called M/V PACDUKE, O.N. 5242, and all tackle, equipment and machinery appertaining thereto (the "Vessel").

B. SELLER and BUYER were parties to a Charter Party dated May 27, 1993, and certain addenda thereto, relating to the Vessel (collectively, the "1993 Agreement").

C. SELLER and BUYER desire to restate their mutual obligations regarding the Vessel and to supplant the terms of the 1993 Agreement. In furtherance thereof, on this same date, SELLER and BUYER have entered into a Charter Party whereby BUYER has hired the Vessel for a period of five (5) years.

D. SELLER desires to sell and BUYER desires to purchase the Vessel upon the expiry of the Charter Party subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and subject to the conditions set forth below, the parties agree as follows:

1. Purchase of Vessel. Upon the expiry of the Charter Party, or on any date prior thereto agreed to by the parties, SELLER will sell and BUYER will buy the Vessel "as is, where is" at the Closing (as that term is defined below).

2. Purchase Price. The purchase price for the Vessel is Two Million Five Hundred Thousand One Hundred dollars ($2,500,100), exclusive of all sales and use taxes and fees associated with the transfer of ownership of the Vessel to BUYER, which such taxes and fees shall be the responsibility of BUYER at the Closing (the "Purchase Price"). The Charter Party requires BUYER to pay SELLER $2,500,000 in prepaid hire. The parties agree that this amount shall be credited against the Purchase Price at the Closing. BUYER shall pay the remainder of the Purchase Price to SELLER at the Closing.

3. Other Expenses.

a. BUYER shall be responsible for paying all expenses incurred in obtaining any government, class or other approval of the sale of the Vessel.

b. At the Closing, BUYER shall pay to SELLER an amount sufficient to cover SELLER's liability for taxes and fees, if any, as set forth in Paragraph 2 above.

c. BUYER shall be responsible for all port charges, including, but not limited to, wharfage, dockage and harbor entrance fees, incurred or assessed by any port authority in connection with the delivery of the Vessel to BUYER.

d. BUYER shall be responsible for all transportation charges, including crew wages and bunkers, associated with the delivery of the Vessel to the location of the Closing.

4. Closing. The term "Closing" as used in this Agreement shall mean the delivery of the Vessel by SELLER to BUYER upon satisfaction of BUYER's obligations under this Agreement. The Closing shall occur on a date and at a location as the parties shall mutually agree prior to the expiry of the Charter Party.

5. Delivery; Transfer of Title. Subject to BUYER's performance of the obligations required by this Agreement, at the Closing, SELLER shall deliver to BUYER, and BUYER shall take possession of, the Vessel with everything belonging to her on board at a berth or place agreed to by the parties pursuant to Paragraph 4 above. Simultaneously, SELLER shall deliver to BUYER an executed Bill of Sale in the form attached to this Agreement as "Exhibit A", whereupon title to the Vessel shall pass to

BUYER, and all documents in SELLER's possession or control, including but not limited to, certificates of inspection, classification, load line and maintenance records.

6. Liability and Indemnity. After the Closing, BUYER shall assume all risk of loss of the Vessel and shall, except with respect to the warranty of title set forth in Paragraph 7 below, be barred from instituting any claim, action, suit or proceeding against SELLER, its parent corporation and their officers, directors, employees, representatives, successors and assigns, arising out of or in connection with the Vessel, or the use or condition thereof. Additionally, after the Closing, BUYER shall defend and indemnify SELLER and its parent corporation and their officers, directors, employees, representatives, successors and assigns, from any claims, actions and liabilities arising out of or in connection with BUYER's ownership of the Vessel.

7. Warranty of Title. At the Closing, SELLER will warrant that it has title to the Vessel, free and clear of all liens and encumbrances, and will indemnify, defend and hold harmless BUYER from and against any liability, cost or expense arising out of or in connection with any breach in this warranty of title.

8. Warranty and Consequential Damage Disclaimer. At the Closing, BUYER shall purchase the Vessel on an "as is, where is" basis, and, except for the warranty of title set forth in

Paragraph 7 above, with no warranties, either express or implied, given by SELLER.

9. Insurance. During the term of the Charter Party and until BUYER takes title to the Vessel, SELLER shall maintain in full force and effect the marine hull and machinery insurance and marine protection and indemnity insurance that it presently has in place on the Vessel, or shall obtain insurance comparable thereto. Such insurance shall contain appropriate endorsements naming BUYER as an additional insured. SELLER shall furnish BUYER evidence satisfactory to BUYER of the insurance required by this Paragraph 9. BUYER shall reimburse SELLER for the cost of the insurance premiums. If SELLER fails to keep in full force or effect or to provide any or all insurance required by this Paragraph 9, BUYER shall have the right to obtain that insurance and pay the premiums for it.

10. Costs and Expenses. During the term of the Charter Party, BUYER shall bear all costs and capital expenses relating to the operation and maintenance of the Vessel, including, but not limited to, wages, maintenance, supplies and equipment costs, and fuel and lubricant expenses, as if it were the owner of the Vessel. BUYER shall promptly reimburse SELLER for any such costs and expenses paid by SELLER.

11. Total or Partial Loss. In the event the Vessel becomes an actual or constructive total loss during the term of

the Charter Party, BUYER shall be entitled to recover all of the insurance proceeds received by SELLER on account of the loss.

12. General Provisions.

a. The terms of this Agreement shall inure to the benefit of and be binding upon the parties, their directors, officers, assigns, agents, employees, legal representatives and successors-in-interest.

b. Captions used in this Agreement are for convenience of reference only and shall have no legal effect or meaning in the construction or enforcement of this Agreement.

c. This Agreement constitutes the entire agreement between the parties and supersedes and cancels all prior agreements and communications, whether written or oral, on the subject matter of this Agreement. The terms of Paragraph 6, Liability and Indemnity; Paragraph 7, Warranty of Title; and Paragraph 8, Warranty and Consequential Damage Disclaimer, shall survive transfer of title of the Vessel from SELLER to BUYER.

d. The terms of this Agreement shall be construed and enforced in accordance with the laws of the State of Oregon. The parties agree that in the event of any dispute concerning their respective rights and obligations under this Agreement, the dispute will be resolved by arbitration in Multnomah County, Oregon before a panel of three (3) arbitrators who are licensed to practice law in the State of Oregon. SELLER shall select one (1) arbitrator; BUYER shall select one (1) arbitrator; and the two (2) arbitrators chosen by the parties shall select the third arbitrator. The arbitrators shall follow the American Arbitrations Association ("AAA") Commercial Arbitration rules with Expedited Procedures in effect on the date hereof, as modified by this Agreement. There shall be no substantive motions or discovery. The hearing shall take place ninety (90) days from a party's arbitration demand and shall be concluded within three (3) days. The decision of the arbitrators will be final and binding on the parties. The prevailing party in any arbitration will be entitled to an award of its reasonable attorneys' fees, costs and expenses incurred in preparation for and through the arbitration and on any appeal therefrom and enforcing this arbitration provision or the arbitrators' determination.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first appearing above.

TRANS-PACIFIC SHIPPING CO.

By: /s/ KENNETH NOVACK

Its: President

SCHNITZER STEEL INDUSTRIES, INC.

By: /s/ ROBERT W. PHILIP

Its: President

EXHIBIT A

BILL OF SALE

Reference is made to the Purchase Agreement (the "Agreement"), dated as of June 22, 1998, by and between Trans-Pacific Shipping Co., a Liberian corporation ("Seller"), and Schnitzer Steel Industries, Inc., an Oregon corporation ("Buyer").

Seller, for good and valuable consideration paid to it by Buyer, the receipt of which is hereby acknowledged, does hereby grant, bargain, sell, transfer, assign and convey to Buyer, its successors and assigns, all of Seller's right, title and interest in and to the Liberian flag vessel M.V. PACDUKE (the "Vessel"), subject to the terms of the Agreement.

TO HAVE AND TO HOLD said Vessel forever, together with all of Seller's right, title and interest in such Vessel.

IN WITNESS WHEREOF, the undersigned have duly executed this Bill of Sale on behalf of Seller as of the ____ day of ___________, 2003.

TRANS-PACIFIC SHIPPING CO.

By:

Kenneth M. Novack
President

EXHIBIT 21.1

SCHNITZER STEEL INDUSTRIES, INC.
List of Subsidiaries

Subsidiary	State of Incorporation
Alaska Steel Co.	Oregon
Arion Shipping Co.	Delaware
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
General Metals of Tacoma, Inc.	Washington
Joint Venture Operations, Inc.	Delaware
Levi's Iron and Metal, Inc.	Oregon
Manufacturing Management, Inc.	Oregon
SSI International (Oregon), Inc.	Oregon
SSI International, 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 Industries, Inc.	Delaware
Proler International Corp	Delaware
Proler Properties, Inc.	Texas
Proler Recycling, Inc.	Delaware
Proler Steel, Inc.	Delaware
Proleride Transport Systems, Inc.	Delaware
Prolerized Steel Corporation	Delaware
Schnitzer Leasing, Inc.	Oregon
SSP Arion Corp.	Oregon
SSP Reclamation Company	Oregon

Exhibit 23.1

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 October 6, 1998 appearing on page 29 of this Annual Report to Shareholders on Form 10-K.

PricewaterhouseCoopers LLP

Portland, Oregon
November 24, 1998

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, 1998 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 26, 1998.

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, 1998 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 27, 1998.

KENNETH M. NOVACK

KENNETH M. NOVACK

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, 1998 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 26, 1998.

ROBERT W. PHILIP

ROBERT W. PHILIP

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, 1998 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 26, 1998.

DORI SCHNITZER

DORI 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, 1998 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 30, 1998.

CAROL S. LEWIS

CAROL S. LEWIS

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, 1998 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, 1998.

GARY SCHNITZER

GARY 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, 1998 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 31, 1998.

SCOTT LEWIS

SCOTT LEWIS

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, 1998 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, 1998.

JEAN S. REYNOLDS

JEAN S. REYNOLDS

POWER OF ATTORNEY
(Form 10-K)

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Dated: October 27, 1998.

ROBERT S. BALL

ROBERT S. BALL

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, 1998 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 27, 1998.

WILLIAM A. FURMAN

WILLIAM A. FURMAN

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, 1998 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 27, 1998.

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, 1998 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 27, 1998.

BARRY A. ROSEN

BARRY A. ROSEN

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, 1998 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 26, 1998.

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.

1,000

12-MOS	12-MOS	12-MOS
AUG-31-1996	AUG-31-1997	AUG-31-1998
SEP-01-1995	SEP-01-1996	SEP-01-1997
AUG-31-1996	AUG-31-1997	AUG-31-1998
0	3,106	3,800
0	0	0
0	31,010	26,161
0	524	645
0	95,154	103,136
0	144,390	150,268
0	151,136	142,582
0	114,427	126,854
0	427,986	471,340
0	39,492	39,160
0	92,881	140,236
0	0	0
0	0	0
0	10,182	9,986
0	228,879	231,450
0	427,986	471,340
339,352	361,753	353,093
339,352	361,753	353,093
290,841	314,785	311,185
309,701	336,023	333,723
0	0	0
0	0	0
3,814	5,026	6,813
30,789	32,171	15,239
10,006	10,946	5,791
20,783	21,225	9,448
0	0	0
0	0	0
0	0	0
20,783	21,225	9,448
2.25	2.06	0.94
2.24	2.05	0.93

The balance sheet as of August 31, 1996 is not included in this report.