TELEFONICA MOBILE INC
Form 6-K
May 13, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

May 12, 2003

Commission File Number [ ]

Telefónica Móviles, S.A

(Exact name of registrant as specified in its charter)

Telefónica Mobile, Inc

(Translation of registrant s name into English)

Goya, 24

28001 Madrid, Spain 3491-423-4004

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F: x Form 40-F: ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes: ¨ No: x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes: ¨ No: x

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes: ¨ No: x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-______

Enclosures: **Telefónica Móviles, S.A. Quarterly results.**

Telefónica Móviles

Telefónica Móviles Results: Key highlights

Key highlights of the results

Solid growth in subscriber numbers and improved quality of the customer base:

- 41.8 million managed active customers(1) at the end of 1Q03, a year-over-year increase of 36.2%:
  - +76% in Latin America to 21.4 million active subscribers, following the inclusion of Brasilcel s assets at the end of 2002.
  - +8% in Spain, reaching a total active customer base of 18.7 million.
- Improved quality of the managed customer bases in all the areas of operation.
- Telefónica Móviles España s commercial activity(2) (+16% vs. 1Q02) focused on customer loyalty, migrations and selective acquisition.
- TME maintains its leadership in the market, with an estimated outgoing traffic share which was stable compared with 1Q02, and increased net adds in corporates and SMEs.
- TME s monthly churn at minimum levels, below 1%, and economic churn even lower.
- Brasicel s share of net adds over 50% in all areas of operations, with strong growth in Sao Paulo.

Excellent performance of usage ratios at TME:

- Reaffirming recovery trend in ARPU in 1Q03 with 2.6% year-on year growth in the month of March.
- Sharp increase in the use of voice services (MOU: +9.6% vs. 1Q02).
- Higher data ARPU (+7%), fostered by good performance in the corporate segment.
- This performance has been achieved despite the negative impact of price cuts and the substitution, in March 2002, of the contract monthly fee by a minimum usage level.

First phase of GSM roll-out in Mexico completed, ready for launching of operations.

Significant progress in operating efficiency:

- Tight control over operating costs, which amounted to 54.1% of revenues, down from 61.3% in 1Q02.
- EBITDA annual growth of 18.6% assuming constant exchange rates, and 8.4% after including the negative impact of exchange rates. Consolidated EBITDA in 1Q03 grew to a total of 993MM .
- Growth of 8.3% in operating revenues assuming constant exchange rates, fuelled by higher service revenues (+10.3% at constant exchange rates), which offset the decline in handset sales. Due to the exchange rate impact, revenues in Euro terms show a 5.8% decline, to 2,129.8MM in 1Q03.
- Consolidated EBITDA margin of 46.6% vs. 40.5 % in 1Q02.
- Telefónica Móviles España continues to be a reference for the sector, due to its efficiency and profitability.

Strong growth in net income:

- Net income in 1Q03 was 359.1MM vs. 286.7MM in 1Q02.
- Growth of 25.3% due exclusively to the improvement in operating results, with no influence from extraordinary results.

Sharp growth in consolidated cash flow(3) generation, strengthening TEM s solid capital structure:

621MM in 1Q03, a 35% increase from 1Q02.

Decrease of more than 2,500MM in consolidated financial net debt over the last 12 months.

Ratio of financial net debt to EBITDA of 1.6x at the end of 1Q03, vs. 2.4x in 1Q02.

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(1) Total subscribers including Brasilcel customers plus the subscribers of managed companies in Chile and Puerto Rico.
(2) Includes gross adds, migrations and handset upgrades.
(3) Consolidated Free Cash Flow = EBIT (1-t) + Amortization Capex Capitalized opex.

Telefónica Móviles

The financial statements for 2003 reflect the real composition of the Telefónica Móviles Group, with no difference from the corresponding information submitted on a regular basis to the CNMV (the Spanish SEC).

The financial statements for 2002 and management discussions appearing in this report corresponding to 2002 refer to proforma data (Combined Pro-forma Financial Statements), which could give rise to differences with respect to the corresponding information submitted to the CNMV. For a correct understanding of this report, a reconciliation of the pro-forma financial information for 2002 and that included in the public information submitted on a regular basis to the CNMV has been carried out.

The financial statements for 2002 were prepared on the assumption that all companies in which Telefónica Group held a stake as of 1 January 2002, and which as of 31 December 2002 had been transferred and/or sold to Telefónica Móviles, are included in Telefónica Móviles Group financial statements from the moment of its incorporation to Telefónica Group.

The consolidated financial statements for Telefónica Móviles Group do not include the mobile operators of Chile and Puerto Rico managed by Telefónica Móviles.

As regards changes in the consolidation perimeter in the last 12 months, we would highlight the following:

Telefónica Móviles stake in the share capital of Grupo Pegaso Telecomunicaciones, acquired in September 2002, has been fully consolidated since 4Q02.

On 27 December 2002, Brasilcel, the Joint Venture with Portugal Telecom in which each of the partners has a 50% stake, was constituted by transferring 100% of both groups direct and indirect shareholdings in various Brazilian cellular operators TeleSudeste Celular, CRT Celular and TeleLeste Celular by Telefónica Móviles and Telesp Celular Participaçoes and an additional stake in CRT Celular by Portugal

Telecom-. From this date Telefónica Móviles Group s financial statements include the consolidation of Brasilcel(4) using the proportional integration method.

For an easier understanding of Telefónica Móviles financial statements, the economic stakes held by the Company in each of its subsidiaries, along with the consolidation method used in its consolidated financial statements in each period, are provided.

(4) And accordingly all operators transferred : Tele Sudeste Celular, CRT Celular y Tele Leste Celular by Telefónica Móviles, and Telesp Celular Participaçoes and an additional stake in CRT Celular by Portugal Telecom.

Telefónica Móviles

Economic ownership

	March		Consolidation method	
	2003	**2002**	**1Q 2003**	**1Q 2002**
T. Moviles España	100.00%	100.00%	Full consolidation	Full consolidation
Brasilcel (1)	50.00%		Proportional method	
TeleSudeste Celular		83.16%		Full consolidation
Celular CRT		40.42%		Full consolidation
TeleLeste Celular		27.71%		Equity method
TCP Argentina	97.93%	97.93%	Full consolidation	Full consolidation
TEM Perú	97.97%	97.97%	Full consolidation	Full consolidation
T. Móviles México (2)	92.00%		Full consolidation	
Norcel		100.00%		Full consolidation
Bajacel		100.00%		Full consolidation
Movitel		90.00%		Full consolidation
Cedetel		100.00%		Full consolidation
TEM El Salvador	90.26%	60.77%	Full consolidation	Full consolidation
TEM Guatemala	100.00%	67.33%	Full consolidation	Full consolidation
Group 3G (Germany)	57.20%	57.20%	Full consolidation	Full consolidation
IPSE 2000 (Italy)	45.59%	45.59%	Equity method	Equity method
3G Mobile (Austria)	100.00%	100.00%	Full consolidation	Full consolidation
3G Mobile AG (Switzerland)	100.00%	100.00%	Full consolidation	Full consolidation
Medi Telecom	31.34%	30.50%	Equity method	Equity method
Terra Mobile	80.00%	80.00%	Full consolidation	Full consolidation
M-Solutions	100.00%	100.00%	Full consolidation	Full consolidation
Mobipay España	13.33%	13.33%	Equity method	Equity method
Mobipay International	36.00%	36.00%	Equity method	Equity method
TmAs	100.00%		Full consolidation	

(1) Joint Venture which consolidates by full integration the assets transfered by TEM (TeleSudeste, Celular CRT and TeleLeste Celular) and by Portugal Telecom (Telesp Celular and an additional stake in CRT Celular).

(2) In 2003 Telefónica Móviles consolidates the North Mexican operators (Norcel, Bajacel, Movitel and Cedetel) and Grupo Pegaso Telecomunicaciones.

Average exchange rates

	1Q	
	2003	2002
Argentina (/ Argentinean Peso)	3.395	1.773
Brazil (/ Brazilian Real)	3.739	2.087
El Salvador (/ Colón)	9.388	7.668
Guatemala (/ Quetzal)	8.423	6.960
Mexico (/ Mexican Peso)	11.552	7.913
Peru (/ Peruvian Nuevo Sol)	3.731	3.020

Conciliation with the Consolidated Income Statement

Unaudited figures

	Consolidated Proforma Figures		Statutory Figures		Differences	
	January March		January March		January March	
	2003	2002	2003	2002	2003	2002
			In million Euros			
Operating revenues	2,129.8	2,261.6	2,129.8	2,211.9	0.0	49.6
EBITDA	993.2	916.6	993.2	899.0	0.0	17.6
Operating profit	635.9	575.8	635.9	551.0	0.0	24.8
Net income before minority interests	346.1	270.3	346.1	272.7	0.0	(2.4)
Net income	359.1	286.7	359.1	288.0	0.0	(1.3)

Telefónica Móviles Group

Consolidated Income Statement

Unaudited figures

	January March	%

	2003	2002	Change
	In million Euros		
Operating revenues	2,129.8	2,261.6	(5.8)
EBITDA	993.2	916.6	8.4
Operating profit	635.9	575.8	10.4
Income before taxes	517.3	439.2	17.8
Net income before minority interests	346.1	270.3	28.0
Net income	359.1	286.7	25.3
Free Cash Flow(1)	621.4	462.0	34.5
Outstanding shares (million)	4,330.6	4,316.0	0.3
Net income per share	0.08	0.07	24.8
FCF per share(2)	0.14	0.11	34.0

(1) Free Cash Flow = EBIT (1- t) + Amortization Capex Capitalized opex
(2) Free Cash Flow per share

In 1Q03 Telefónica Móviles recorded net income of 359MM , an increase of 25.3% from 1Q02. We would underscore the high quality of these earnings, as growth was achieved despite the negative impact of exchange rates on the contribution from the Latin American operators.

Net income was underpinned by strong free cash-flow generation(5), which amounted to 621.4MM in 1Q03, 34.5% higher than in the same period last year.

Key aspects of these results are as follows:

Moderate decline in operating revenues from 1Q02 (-5.8%), due primarily to the impact of exchange rates, which subtracted 14.1 p.p. from the Group s growth. Assuming constant exchange rates, annual growth in consolidated revenues in 1Q03 would have been 8.3%, driven by higher service revenues.

Telefónica Móviles España (TME) contributed 75.3% of consolidated revenues. Total revenues for TME registered year-over-year growth of 1.9%, due to the positive performance of service revenues, which more than offset the decline in handset sales recorded in 1Q03.

Latin American operators fully consolidated accounted for 24.5% of Group operating revenue in 1Q03. Due to the impact of exchange rates -especially the Brazilian real s depreciation vis-à-vis the euro-revenues from these companies, in euros, fell 22.3%. It must be highlighted that the average exchange rate for the Brazilian real has varied from 1 / 2.087 R$ in 1Q02 to 1 / 3.739R$ in 1Q03, and the Argentinean peso from 1 / 1.773 peso in 1Q02 to 1 / 3.395 peso in 1Q03. Excluding this effect and assuming constant exchange rates, revenues from these operators would have increased by 25% vs. 1Q02.

The year-over-year decline in revenues versus 1Q02 had already been anticipated, given the fluctuation of average exchange rates, with a positive performance expected for the coming quarters.

It must be pointed out that from 1 January 2003, standard criteria have been applied to all Latin American operators managed by Telefónica Móviles for active prepaid customers accounting, disconnecting those customers who in three months do not generate either incoming or outgoing traffic and do not have a sufficient balance to make a telephone call.

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(5) Consolidated Free Cash Flow = EBIT (1-t) + Amortization Capex Capitalized Opex.

After such customer normalization, -which affected the customer bases of some Brazilian operators, of TCP Argentina and of Telefónica Móviles Perú- 100% of the prepaid customer base of the different operators in the Group is active , in accordance with the criteria for accounting customers mentioned previously which is more conservative than those applied by competitors in the region. In Spain, the criterion followed by TME is the most conservative in the industry, since it considers as disconnections those prepaid customers who have not recharged their card after one month with no balance, even if they receive incoming calls

As a result, the total active customer base managed by Telefónica Móviles in its areas of operations at the end of 1Q03 was 41.76 million (30.67 million in 1Q02).

Tight control over operating costs, which reflect a 16.9% year-over-year decline from 1Q02 and a decrease in their weight over operating revenues of 7.2 p.p. to 54.1%.

Accordingly, consolidated EBITDA in 1Q03 amounts to 993.2MM with a year-over-year increase of 8.4%. Assuming constant exchange rates, growth would have been 18.6%.

The EBITDA margin reached 46.6% vs. 40.5% in 1Q02. The growth in margins was mainly driven by the 5.3 p.p. improvement of TME s margin to 55.13%- and the closing of operations elsewhere in Europe -with a negligible EBITDA in 1Q03- which more than offset the integration of Grupo Pegaso Telecomunicaciones.

By geographical areas, TME s EBITDA grew 12.8% compared to 1Q02. EBITDA growth by the fully consolidated Latin American operators, assuming constant exchange rates, was 6% vs. 1Q02, although due to the exchange rate impact, in euros they show a 37,9% decline.

Decline in losses from companies consolidated by the equity method (-29.4% vs. 1Q02) deriving from improved results at Médi Telecom and lower losses attributable to IPSE 2000.

Positive performance of net financial expenses, which were virtually unchanged from 1Q02 (+1.4%) despite the changes in the consolidation perimeter.

Telefónica Móviles ended 1Q03 with consolidated net financial debt of 6,328MM , 642MM lower than at the end of 2002, and a 28.6% decline over the last 12 months.

Proportionate net debt also performed well relative to year-end 2002 (-550MM), standing at 7,158MM at March 31 2003. The difference from March 2002 (+4.5%) is mainly due to changes in the consolidation perimeter in the last twelve months.

Capex in 1Q03 totalled 149MM , a year-over-year decrease of 21.7%. It should be pointed out that capex evolution is not uniform throughout the year, so this performance cannot be extrapolated to the full year 2003. Moreover, 1Q03 s figures still do not include the rollout of the GSM network in Mexico.

Regarding capitalized expenses, in 1Q03 only the provision for the spectrum fee assigned to TME for the future operation of the UMTS technology was recorded (5.6MM).

Significant events

The following significant events took place during the last few months:

On 26 April, Telesp Celular Participações, S.A. finalized the acquisition of 61.10% of the ordinary shares with voting rights-equivalent to 20.37% of the total share capital- of Brazilian cellular company Tele Centro Oeste Celular Participações, S.A. (TCO) through Telesp Celular Participações. With this acquisition, Brasilcel -Telefónica Móviles and Portugal Telecom s joint venture in Brazil-, consolidates its leadership of the Brazilian cellular market, including the key markets of Sao Paulo, Rio de Janeiro and Brasilia.

After this acquisition, a tender offer will be launched for the company s remaining ordinary shares. After this operation, TCO shares will be incorporated, giving Telesp Celular Participações the chance to hold 100% of the shares representative of TCO s capital stock.

On 7 April, Telefónica Móviles, T-Mobile International and TIM (Telecom Italia Mobile) announced a memorandum of intentions to set up a strategic alliance to provide their customers with a unified and superior offering of products and services thereby strengthening the operators ability to compete in all the markets where they have a presence.

This alliance aims to obtain benefits for its members current and future clients, while having a twofold effect for the operators:

- Increased revenues from the joint development of offers for travellers (attractive offers in roaming and virtual home environment).

- Cost reductions, as the standardization of products and services will allow the obtaining of scale economies that can be passed on to clients.

The alliance will be open to the possible incorporation of other wireless operators interested in contributing to the enhancement of the different areas of collaboration.

An agreement was reached at the AGM held 1 April to pay a gross dividend of 0.175 per share against voluntary reserves. The dividend will be paid during the month of June 2003.

Moreover, shareholders approved the proposed change in the Board of Directors compensation scheme, in line with the company s policy of maximum transparency and application of the Code of Corporate Governance, and the recommendations of the Aldama Report. From now on, the AGM itself will decide on the maximum remuneration paid to Board members.

Also at the AGM, shareholders approved the appointment of Fernando de Almansa Moreno-Barreda and Alejandro Burillo Azcárraga as new members of the Board of Directors.

During the first quarter of 2003, an agreement was reached with Terra Lycos for the restructuring of Terra Mobile, through which Telefónica Móviles will increase its stake in the latter company to 100%.

Telefónica Móviles

Market Size

	Total (1)			Managed (2)			Equity (3)		
	March			March			March		
	2003	2002	% Change	2003	2002	% Change	2003	2002	% Change
	In thousands								
Spain and Mediterranean Basin									
Subscribers	20,378	18,549	9.9%	20,378	18,549	9.9%	19,222	17,692	8.7%

Pops	71,784	70,942	1.2%	71,784	70,942	1.2%	51,386	50,619	1.5%
Latin America									
Subscribers	19,321	10,282	87.9%	21,381	12,119	76.4%	9,728	7,811	24.5%
Pops	279,270	147,211	89.7%	298,419	166,643	79.1%	202,668	118,931	70.4%
TOTAL (4)									
Subscribers	**39,699**	**28,831**	**37.7%**	**41,759**	**30,669**	**36.2%**	**28,950**	**25,503**	**13.5%**
Pops	**351,053**	**218,153**	**60.9%**	**370,203**	**237,585**	**55.8%**	**254,054**	**169,550**	**49.8%**

(1) Includes total customers from all operators in which Telefónica Móviles holds an economic participation. 2003 includes Brasicel s, the Joint Venture with Portugal Telecom in Brasil, subscriber base. Excludes Chile and Puerto Rico.

(2) Total subscribers plus the subscribers of managed companies in Chile and Puerto Rico.

(3) Total subscribers weighted by the economic interest held in each company. In 2003 includes the equity subscribers in Brasilcel, the Joint Venture with Portugal Telecom in Brazil. Excludes Chile and Puerto Rico.

(4) After the halting of UMTS operations in Europe, European population and subscriber figures are excluded from 2002 and 2003 data.

Results by geographic regions

Unaudited figures

	REVENUES			EBITDA		
	January March			January March		
	2002	2001	% Change	2002	2001	% Change
			In million Euros			
Spain	1,603.9	1,574.0	1.9%	884.2	784.1	12.8%
Latinamerica (1)	522.4	672.7	-22.3%	133.0	214.3	-37.9%
Rest and intragroup sales (2)	3.5	14.9	-76.5%	-24.0	-81.8	-70.7%
TOTAL	**2,129.8**	**2,261.5**	**-5.8%**	**993.2**	**916.6**	**8.4%**

(1) Due to the consolidation of Telefónica Móviles México financial statements after the integration of the northern Mexican operators and Grupo Pegaso Telecomunicaciones, 2003 and 2002 revenues are after intragroup adjustments.

(2) After the halting of UMTS operations in Europe, financial data of 2003 and 2002 are included in this item.

Business performance by geographic region

Spain

Excellent results from the commercial strategy focused on customer retention, fostering prepaid to contract migrations and selective acquisition.

Minimum levels of monthly churn, with economic churn standing even lower.

Increasing usage of voice and data services.

6% year-on-year increase in core business revenues.

Increased operating efficiency.

T. Moviles Spain

Unaudited figures

	March 2003	March 2002	% Change
	In thousands		
Subscriber Data			
Total subscribers	18,694	17,315	8.0%
Prepaid	11,886	11,849	0.3%
Contract	6,808	5,465	24.6%
Equity Subscribers	18,694	17,315	8.0%

	January March 2003	January March 2002	% Change
	In million Euros		
Financial Data(1)			
Revenues	1,603.9	1,574.0	1.9%
EBITDA	884.2	784.1	12.8%
EBITDA Margin	55.1%	49.8%	5.3 p.p

(1) Includes Telecom s management fee.

At the end of March 2003, the **success of TME s commercial strategy**, based on customer retention and selective acquisition, has resulted in the following accomplishments:

Encouraging migrations: A year after the substitution of the monthly fee by a minimum usage commitment, close to 250,000 prepaid customers migrated to the contract segment in 1Q03, over twice as many as in 1Q02. Thus, the weighting of the contract segment in the total customer base is 36.4%, nearly 5 p.p. more than in 1Q02, marking the fifth consecutive quarter of growth. It is also noteworthy the positive influence on the average usage and revenue ratios, given the increases in MOU and ARPU generated by migrated customers.

In 1Q03 there were more than 830,000 handset upgrades using loyalty points, 2.5 times more than in 1Q02.

Minimum churn level: TME maintains the lowest churn rate among the largest wireless operators in Europe, with a monthly churn rate in 1Q03 below 1%. It is also important to highlight that the economic impact of disconnections remains appreciably smaller than indicated by the commercial churn, since their usage is much lower than the average usage of the Company s customer base.

All such has derived in an increase in TME s commercial activity versus 1Q02: gross adds, migrations and handset upgrades exceeded 1.9 million, 16% more than in 1Q02, with customer loyalty initiatives accounting for an increasing weight.

In such a context, TME ended March 2003 with an active customer base of nearly 18.7 million, 8% higher than at the end of 1Q02, maintaining an estimated outgoing traffic share which was stable over the past twelve months and higher than its estimated market share.

The good results of TME s commercial policies have been accompanied by an steady improvement in the efficiency of resources assigned to customer acquisition and retention. In 1Q03, SACs+SRCs accounted for 7.3% of TME s operating revenues, 0.7 p.p. less than in 1Q02. This achievement is even more significant if we consider the above-mentioned growth in commercial activity compared to 1Q02.

Business performance by geographic region

It must also be highlighted the increasing usage of both voice and data services. TME s networks carried more than 8,400 million minutes of traffic, 18% more than in 1Q02. As a result, MOU was around 106 minutes in 1Q03, 9.6% higher than in 1Q02. This represent the fourth quarterly year-over-year increase in MOU, marking the definitive consolidation of the upward trend of MOU. Obviously, the quarterly performance of MOU vis-à-vis 4Q02 is explained by seasonal factors inherent to the business.

The positive performance of usage ratios enabled TME to reaffirm in this first quarter the recovery trend in ARPU. In 1Q03 TME s ARPU stood at 27.6 (27.7 in 1Q02), confirming the inflection point in the trend. All this despite the year-over-year comparison is still not homogeneous, as March 2002 was the first month in which the monthly fee was replaced by a minimum usage commitment and in the second half of 2002 termination rates were reduced by nearly 17%. We would underscore the performance of ARPU in March 2003, the first month with a year-on-year growth (+2.6%). Consequently, considering the positive evolution of usage ratios, the rising trend in TME s ARPU is likely to be consolidated as from the next quarter. Notably, this positive trend is supported by the performance of ARPU for outgoing calls, more directly affected by the Company s policies. ARPU for outgoing calls in 1Q03 was 4% higher than in 1Q02.

The increased usage of voice services was accompanied by the consolidation of the data business as a key element in TME s revenue structure. Data ARPU reached 3.52 , versus 3.29 in 1Q02.

This advance in the data business is explained both by the growth in traditional data services and by TME s ongoing commitment to innovation and constant improvement in services:

In 1Q03, 2,145 million short messages (SMS) were carried, 18% more than in 1Q02. Of the total, 33% were SMS that provide access to content.

To March 2003 the number of MMS handsets sold has been 180,000. The prospects for this service in 2003, once handset prices become more adjusted, are very good, particularly if we consider that the range of handset models will be broadened in the course of the year and that their prices will tend to come down.

TME has launched a renewed product offer providing access to data and entertainment services under the name Movistar e-mocion . The service s main features include richer colour content (downloadable games, polyphonic tones, etc.), graphics and images, a new and more intuitive WAP browser menu, more user-friendly options and various types of access (navigation, messages, voice and downloads). It allows all of Telefónica Movistar s customers to access new forms of communication regardless of the type of handset they use.

On the corporate market, the introduction of advanced data services is clearly on the rise. Particularly noteworthy are the new agreements or ones now being negotiated with major companies for the installation of products such as Movistar Intranet, location based services and Movistar Intrawap, among others.

We should also highlight the launch of Movistar handsets in 1Q03 under the brand name TSM. This initiative reinforces customers identification with the company, providing yet another tool for enhancing customer loyalty. It also enriches customer experience, as TME has the capacity to provide optimal applications and configurations for value-added services. Furthermore, in the course of the year a new range of handset models will be developed, bolstering the rollout of data services by making quality handsets available to customers at very competitive prices.

As a result, TME has continued to improve its results and consolidate its position as one of Europe s most solid and profitable operators:

Operating revenues in 1Q03 were 1,604MM , a year-over-year increase of 1.9%.

Service revenues, the real generator of significant margins, showed an increase of 6% from 1Q02. Furthermore, customer revenues those excluding interconnection which are directly related to company policies, grew 12.1% in 1Q03 over 1Q02.

Total revenues growth has been greatly affected by the performance of handset sales, which is a low-margin, highly seasonal source of revenue, but which allows TME to improve its commercial policies and maintain a homogeneous offer which is aligned with the strategy of the company. The lower handset sales compared to 1Q02, in spite of the greater commercial activity, is explained by the fact that the distribution channels had

Business performance by geographic region

already, during 4Q02, made their purchases of handsets for commercial campaigns which took place during January 2003, whereas during the previous year, these purchases were made in the month of January. It should also be kept in mind that commercial actions to promote customer loyalty allow for more efficient inventory management.

However, it should be noted that the performance of handset sales has no impact on the company s capacity for cash flow generation.

In spite of the moderate increase in revenues in 1Q03, and keeping in mind the seasonality of the business which leads to sales during the first quarter being the lowest of the year the company maintains its guidance of revenue growth above 10% for full-year 2003 based upon the larger customer base, the increase in ARPU and a greater number of handset upgrades, which will lead to a larger volume of revenues from handset sales.

TME continues to pursue a policy of constant improvement in the efficient use of resources. In such a way, in a context where commercial activity has increased considerably, the upward trend in MOU and the recovery trend month after month in ARPU have consolidated, operating expenses have declined by 12.4% versus 1Q02 and operating costs per customer by 15.9%. Excluding the cost of handsets purchased, total operating costs declined by 2%, even despite the above-mentioned rise in customer revenues.

EBITDA in 1Q03 amounted to 88.4MM , 12.8% more than in 1Q02.

EBITDA margin in the quarter was 55.1%. EBITDA per customer per month also continued to rise, with a 4% year-on-year growth.

Regarding capex, TME continued its policy of rationalizing resources, with total capex in 1Q03 reaching 112MM , or 7% of the Company s operating revenues.

TME s workforce remained largely unchanged, with 4,362 employees at the end of March 2003. The productivity ratios of TME s workforce maintained excellent levels, measured both by EBITDA and lines per employee. EBITDA per employee in the quarter rose by 12% versus 1Q02.

Morocco

Sustained growth in customer base and margins

Médi Telecom ended 1Q03 with 1,684 million active customers, a year-on-year increase of 36%, keeping its estimated market share above 41%.

As for the operator s financial results, EBITDA in 1Q03 amounted to 19MM versus a total EBITDA for the full year 2002 of 34.5MM . The EBITDA margin performed well, reaching 30.8% of operating revenues versus 15.4% in year 2002 and 19% in 4Q02, even though net adds were broadly the same as in 4Q02.

Business performance by geographic region

Latin America

Latin America

Unaudited figures

	March	% Change

	2003	2002	
	In thousands		
Subscriber Data			
Total subscribers (1)	19,321	10,282	87.9%
Prepaid	14,433	7,088	103.6%
Contract	4,888	3,194	53.0%
Equity Subscribers	9,728	7,811	24.5%

	January March		% Change
	2003	2002	
	In million Euros		
Financial Data			
Revenues	522.4	672.7	-22.3%
EBITDA	133.0	214.3	-37.9%
EBITDA Margin	25.5%	31.1%	-5.6 p.p

(1) Includes total customers from all operators in which Telefónica Móviles holds an economic participation. March of 2003 includes Brasicel s (the Joint Venture with Portugal Telecom in Brazil) and Pegaso Telecomunicaciones subscriber base. Excludes Chile and Puerto Rico.

Brazil

Maintaining our leadership in all areas of operations, with a stable market share.

Contract customer base retention.

Strong growth in Sao Paulo, Brasil s largest market.

Brasil

Unaudited figures

	March		% Change
	2003	2002	
	In thousands		
Subscriber Data			
Total subscribers (1)	13,771	5,841	n.c.
Prepaid	10,053	3,947	n.c.
Contract	3,718	1,894	n.c.
Equity Subscribers (2)	4,452	3,588	24.1%

January March		% Change	% change in local currency
2003	2002		
In million Euros			

Financial Data (3)				
Revenues	240.6	364.3	-34.0%	18.3%
EBITDA	95.8	143.1	-33.1%	20.0%
EBITDA Margin	39.8%	39.3%	0.5 p.p	0.5 p.p

(1) March 2003 includes Brasilcel s, the Joint Venture with Portugal Telecom, subscribers. 2002 figures reflect TeleSudeste Celular, TeleLeste Celular and CRT Celular.
(2) Total subscribers weighted by the economic interest held in each company in the subscribers of Brasilcel.
(3) 2003 includes proportional data of Brasilcel, and 2002 figures corresponds to TeleSudeste Celular, TeleLeste Celular and CRT Celular

At the end of March 2003, Brasilcel, the Joint Venture between Telefónica Móviles and Portugal Telecom in Brazil, which in early April began selling its services under the unified brand name VIVO , had an active customer base of 13.8 million (+14.8% vs. 1Q02).

In the first three months of 2003, Brasilcel net adds amounted to 29,000 customers -after accounting for the 235,000 disconnections caused by the application of stringent criteria for recording the prepaid customer base mentioned before in this report. Despite stiffer competition and the disconnections recorded, the Company has maintained its competitive position in its areas of operation, estimating to

Business performance by geographic region

have captured more than 50% of gross adds in these markets.

In 1Q03 ARPU was 37 R$, (comparison with 2002 is distorted by the change in prepaid revenues accounting methodology). The trend is explained by the macroeconomic environment in Brazil and the higher proportion of prepaid customers in the customer mix.

Such reason also contributes to blended MOU totalling 98 minutes, versus 107 in 1Q02, despite the increase in the contract segment, where MOU amounted to 190 minutes in 1Q03 (+4% vs. 1Q02).

Regarding the contribution of the Brazilian companies to Telefónica Móviles Group results, it should be considered that 1Q03 figures reflect the proportional integration of Brasilcel, whereas 1Q02 results include those of the three companies controlled by Telefónica Móviles in Brazil at that time. The results for Brazil in these two periods are therefore not comparable.

The launching of VIVO as a single brand for the joint venture s operations in Brazil marks a step forward in the company s unified commercial strategy. VIVO is now Brazil s largest community of cellular customers. The strategy of the campaign for launching the brand aims at informing users across the country and those customers served to date regionally by Telesp Celular, Tele Sudeste Celular, CRT Celular, Global Telecom and Tele Leste Celular, that they are now clients of VIVO, with all the resulting advantages.

After the closing of 1Q03, the acquisition of 61.1% of the ordinary shares with voting right of Tele Centro Oeste Celular Participaçoes, through TCP, has been materialized. This company delivered an excellent earnings performance in 1Q03. According to information published by the company in Brazil, TCO ended March with more than 3.178 million customers, 26.3% higher than in 1Q02. Operating revenues in local currency, and according to Brazilean GAAP, rose 25% and EBITDA by 9.5%, leaving an EBITDA margin of 39.5%.

Therefore, including TCO s reported customer base, Brasicel is managing more than 17 million customers in Brazil, making it by far the leading operator in that country.

Mexico

Positioning ourselves for handling the higher commercial activity expected after the launching of GSM service.

Record-time GSM roll-out.

T. Móviles Mexico

Unaudited figures

	March		% Change
	2003	**2002**	
		In thousands	
Subscriber Data			
Total subscribers(1)	2,430	1,250	n.c.
Prepaid	2,131	987	n.c.
Contract	299	263	n.c.
Equity Subscribers	2,236	1,224	n.c.

	January-March		% Change	% change in local currency
	2003	**2002**		
		In million Euros		
Financial Data(1)				
Revenues(2)	130.4	110.4	18.2%	n.c.
EBITDA	-4.5	14.2	c.s.	n.c.
EBITDA Margin	-3.4%	12.8%	c.s.	n.c.

(1) 2003 includes subscribers and financial data of Grupo Pegaso Telecomunicaciones.
(2) Due to the consolidation of Telefónica Móviles financial statements after the integration of the northern Mexican operators and Grupo Pegaso Telecomunicaciones, 2003 and 2002 revenues are after intragroup adjustments.

After the integration of Grupo Pegaso Telecomunicaciones with Telefónica Móviles operations in northern Mexico, the priority of Telefónica Móviles (TMM) in 1Q03 was to redefine, unify and design the main processes and procedures for handling the higher commercial activity expected after the launch of its GSM services, while at the same time advancing in the deployment of the GSM network.

In this direction, in April TMM started to unify all its operations under the Telefónica MoviStar brand as a step prior to the launch of an innovative range of products and services. This change includes revamping the image of all Pegaso shops in Mexico under a new customer care model for Telefónica Movistar clients. Overall, some 2,500 shops nationwide will display the company s new brand image.

TMM ended 1Q03 with 2.430 million active customers, with quarterly net adds of 11,000 customers.

MOU in 1Q03 stood at 87 minutes, with traffic performing well after the launch of marketing campaigns since the beginning of 2003 to promote usage. ARPU was 211 Mexican pesos.

As regards TMM s financial results, it must be taken into account that the 1Q03 figures are not comparable to those of 1Q02, due to the consolidation of Grupo Pegaso Telecomunicaciones results by the full integration method from September 2002.

Operating revenues for TMM in 1Q03 were 130.4MM while EBITDA losses amounted to 4.5MM . The lower revenues with respect to 4Q02 are explained by seasonal factors, as the previous quarter includes the results of the Christmas campaign, when commercial activity and handset sales are stronger. We should point out the efforts to control costs, including most notably personnel reduction. The overall workforce of TMM at end-March was lower than the number of employees which TMM had in the north of Mexico 12 months ago, even taking into account the incorporation of Grupo Pegaso Telecomunicaciones.

Regarding the roll-out of the new GSM network, we should highlight that network deployment activities have been finalized in Mexico City, Guadalajara, Monterrey and Tijuana, for the commercial launch of GSM services in coming months. In these sense, committed capex amounts to 230MM .

Argentina

Strong operating recovery, with increasing gross adds and usage ratios.
Significant advance in profitability.

Telefónica Comunicaciones Personales (TCP)

Unaudited figures

	March 2003	March 2002	% Change
	In thousands		
Subscriber Data			
Total subscribers	1,547	1,696	-8.8%
Prepaid	1,066	1,134	-6.0%
Contract	481	562	-14.5%
Equity Subscribers	1,515	1,661	-8.8%

	January March 2003	January March 2002	% Change	% change in local currency
	In million Euros			
Financial Data				
Revenues	48.7	73.9	-34.2%	26.0%
EBITDA	15.6	17.9	-12.8%	66.8%
EBITDA Margin	32.0%	24.2%	7.8 p.p	7.8 p.p

January-March

2003

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Business performance by geographic region

After the sharp contraction in 2002, the Argentinean cellular market showed certain signs of a turnaround in the first months of 2003, with the pace of decline clearly easing. At the end of March 2003, the estimated penetration rate was 18.6%, with TCP remaining in second position in the market with 1.547 million active customers (1.696 million in 1Q02).

In 1Q03 commercial activity focused on gaining new customers for the Unifón Ahorro product and stepping up efforts to capture corporate customers. Consequently, gross adds have continued to recover, growing 17% with respect to 4Q02 and over 60% versus 1Q02.

ARPU performance was also positive, maintaining the upward trends initiated the previous year, registering 31% year-on-year growth in local currency, particularly notable in the contract segment and bolstered by the recovery in MOU (+6.2% vs. 1Q02).

Turning to TCP s financial results for 1Q03, operating revenues in pesos rose 26% year-over-year. This is explained by the price management policy implemented in 2002 with tariff increases in line with inflation and the larger revenues from interconnection and roaming, which more than offset the effects of the smaller customer base.

Despite strong sales growth, cost cutting helped to temper the rise in operating expenses (+13% vs. 1Q02). Here we would point out the tight control over the bad-debt ratio, which fell by over 6 p.p. vs. 1Q02.

As a result, EBITDA in pesos in 1Q03 was 66.8% higher than in 1Q02. The EBITDA margin also improved, increasing by more than 8 p.p. on 1Q02 to 32% in 1Q03.

With respect to TCP s financial debt, we would point out that in January TCP signed definitive debt-refinancing agreements with its main creditors, extending maturities and obtaining better terms.

Peru

Defending the profitable customer base.

Strong EBITDA increase.

Significant cash flow generation.

T. Moviles Perú

Unaudited figures

	March		
	2003	**2002**	**% Change**
		In thousands	
Subscriber Data			
Total subscribers	1,239	1,131	9.5%
Prepaid	956	892	7.1%
Contract	283	239	18.5%
Equity Subscribers	1,214	1,108	9.5%

	January-March			
	2003	**2002**	**% Change**	**% change in local currency**
			In million Euros	
Financial Data				
Revenues	62.8	76.9	-18.4%	0.8%
EBITDA	22.6	25.0	-9.7%	11.6%
EBITDA Margin	36.0%	32.6%	3.4p.p	3.4p.p

January-March

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2003

Business performance by geographic region

The Peruvian cellular market ended 1Q03 with an estimated penetration rate of 8.7%, 1.5 p.p. higher than the year before.

After the normalization of its customer base in 1Q03, Telefónica Móviles Perú had 1.239 million active subscribers at the end of March 2003, a 9.5% year-over-year increase. The company has maintained its leadership position, with an estimated market share of over 53%, more than twice that of its nearest competitor.

Once again this quarter we would underscore the growth in the contract segment, which posted a year-over-year increase of 19%, increasing its weighting over the total customer base to 23% (21% in 1Q02). This growth reflects the company s commercial strategy, reinforced by the customer retention policy based on loyalty plans and handset upgrade programs.

As for Telefónica Móviles Perú s financial results for 1Q03, operating revenues in local currency increased 0.8% year-over-year, mainly due to the reduction in termination fees and to the lower handset sales.

EBITDA in local currency increased by 11.6% from 1Q02. The EBITDA margin was 36%, 3.4 p.p. higher than in 1Q02. This growth is explained by the strict policy of cost cutting and control most notably the sharp reduction in SAC during 1Q03 despite increased commercial activity with respect to 1Q02.

Chile

Margin improvement.
Roll-out of GSM network, with GPRS platform.

Telefónica Móvil, -the subsidiary of Telefónica CTC Chile managed by Telefónica Móviles, ended March 2003 with 1.884 million active customers, with year-over-year growth of 14%.

As regards financial results, the adjusted EBITDA margin was 34%, 5 p.p. more than in 1Q02.

After the end of the quarter, Telefónica Móvil announced the launch of its new GSM network, with a GPRS platform, which will operate in the 1900 MHz frequency band. This makes Telefónica Móvil the only operator in Chile that has a 2.5G network with national coverage.

Guatemala and El Salvador

Focus on high value customers.

TEM Guatemala and TEM El Salvador

Unaudited figures

	March		%
	2003	2003	Change
	In thousands		
Subscriber Data			
Total subscribers	334	363	-8.1%
Prepaid	227	127	78.2%
Contract	107	236	-54.7%
Equity Subscribers(1)	312	230	35.5%

	January-March		%
	2003	2002	Change
	In million Euros		
Financial Data			
Revenues	39.9	47.2	-15.4%
EBITDA	3.5	14.2	-75.1%
EBITDA Margin	8.8%	30.0%	-21.2 p.p

(1) The change in equity subscribers includes the increase in stakes carried out in 2002 in both operator

The total active customer base managed by Telefónica Móviles operators in Guatemala and El Salvador at the end of March 2003 was 334 thousand (106 thousand in Guatemala and 228 thousand in El Salvador), versus 363 thousand in 1Q02. The contraction in the customer base reflects the operators focus on high-value customers.

1Q03 financial results are affected by the non-recording of revenues from tower rentals, which by contrast were recorded in the 1Q02 accounts, and also by the impact of one-off operating expenses.

Puerto Rico

Back to growth.

Movistar Puerto Rico, the operator managed by Telefónica Móviles, ended 1Q03 with 175,706 active customers, after achieving net adds of approximately 7 thousand customers in the quarter. This marks a reversal in the customer base trends of earlier months. Of the total customer base, the contract segment accounted for 54.5% (+4.5 p.p. vs. 1Q02).

Appendix

Appendix

Consolidated Income Statement

Unaudited figures

	January - March 2003	2002	% Change
	In million Euros		
Operating revenues	**2,129.8**	**2,261.6**	**(5.8)**
Operating expenses	(1,152.0)	(1,385.8)	(16.9)
Supplies	(485.2)	(618.4)	(21.5)
Personel expenses	(119.2)	(148.2)	(19.5)
Subcontract and taxes	(547.6)	(619.3)	(11.6)
Other net operating income (expense)	15.4	40.9	(62.3)
EBITDA	**993.2**	**916.6**	**8.4**
Depreciation and amortization	(357.3)	(340.8)	4.8
Operating profit	**635.9**	**575.8**	**10.4**
Profit from associated companies	(23.7)	(33.6)	(29.4)
Financial income (expense), net	(78.9)	(77.8)	1.4
Amortization of goodwill	(21.0)	(20.6)	2.0
Extraordinary income (expense), net	5.0	(4.7)	c.s.
Income before taxes	**517.3**	**439.2**	**17.8**
Income taxes	(171.2)	(168.8)	1.4
Net income before minority interests	**346.1**	**270.3**	**28.0**
Minority interests	13.0	16.4	(20.5)
Net income	**359.1**	**286.7**	**25.3**
Outstanding shares (million)	**4,330.6**	**4,316.0**	**0.3**
Net income per share	**0.08**	**0.07**	**24.8**

Appendix

Consolidated Balance Sheet

Unaudited figures

	March 2003
	In million Euros
m	11,036.4
	361.3
e net	2,264.3
t	4,427.3
ents	3,983.5
l	1,552.0
	22.4
assets	3,624.6
es	121.3
s e	1,532.0
m nts(1)	1,556.3
l banks	98.7
	316.3
es & lders	16,235.4
ders	3,580.7

52,600(11)		3,073,418							
W.									
er	5,872		8,808(2)	34.46	11/29/2015				
						6,288(7)	367,408		
						6,667(9)	389,553	13,333(12)	77
						5,356(8)	312,951		
								14,680(10)	85
								15,720(11)	91
.									
er	13,116			4.67	6/1/2010				
	28,344		14,172(3)	5.92	9/24/2012				
	17,874		5,958(4)	12.00	6/1/2013				
	15,000		10,000(5)	28.41	10/18/2014				

4,111	6,165(2)	34.46	11/29/2015				
2,116	8,464(6)	34.73	7/25/2016				
				3,408(8)	199,129		
						10,276(10)	60
						10,580(11)	61

(1) Options to purchase Class A Common Stock generally become exercisable for 20% of the shares on June 1 following the grant date and on June 1 of each of the next four years thereafter, becoming fully exercisable on

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the fifth June 1 following the grant date, subject to continued employment and accelerated vesting under certain conditions.

(2) This option vests as to 33.3% of the shares on June 1 each year in 2008, 2009 and 2010.

(3) This option vested 100% on September 24, 2007.

(4) This option vests 100% on June 1, 2008.

(5) This option vests as to 50% of the shares on June 1 each year in 2008 and 2009.

(6) This option vests as to 25% of the shares on June 1 each year in 2008, 2009, 2010 and 2011.

(7) This RSU vests as to 25% of the shares on June 1 each year in 2008, 2009, 2010 and 2011.

(8) This RSU vests as to 20% of the shares on June 1 each year in 2008, 2009, 2010, 2011 and 2012.

(9) This RSU vests 100% on June 30, 2008.

(10) Reflects LTIP performance share awards that were granted in fiscal 2006 and will vest subject to and based on performance during the performance period of fiscal 2006-2008. Share amounts are calculated based on the number of shares that would be issued at the maximum level of performance multiplied by the closing price of the Class A Common Stock on the last trading day of fiscal 2007.

(11) Reflects LTIP performance share awards that were granted in fiscal 2007 and will vest subject to and based on performance during the performance period of fiscal 2007-2009. Share amounts are calculated based on the number of shares that would be issued at the maximum level of performance multiplied by the closing price of the Class A Common Stock on the last trading day of fiscal 2007.

(12) Represents RSUs granted to Mr. Hamaker that are subject to and based on satisfaction of performance measures. Share amounts are calculated based on the number of shares that would be issued based on the maximum level of performance multiplied by the closing price of the Class A Common Stock on the last trading day of fiscal 2007.

Compensation Plan Information

The following table provides information as of August 31, 2007 regarding equity compensation plans approved and not approved by the Company s shareholders.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options,	(b) Weighted Average Exercise Price of Outstanding Options,	(c) Number of Securities Remaining Available for Future Issuance (Excluding Securities

	Warrants and Rights(2)	Warrants and Rights(3)	Reflected in Column (a))
Equity compensation plans approved by shareholders (1)	1,318,973	$ 24.84	2,184,437
Equity compensation plans not approved by shareholders			
Total	1,318,973	$ 24.84	2,184,437

(1) Consists entirely of shares of Class A Common Stock authorized for issuance under the Company s SIP.

(2) Consists of 534,581 shares subject outstanding options, 247,604 shares subject to outstanding RSUs, 40,725 shares subject to outstanding DSUs or credited to stock accounts under the Defined Compensation Plan for Non-Employee Directors, and 496,063 shares representing the maximum number of shares that could be issued under outstanding LTIP performance share awards.

(3) Represents the weighted average exercise price for options included in column (a).

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Option Exercises and Stock Vested in Fiscal 2007

The following table sets forth certain information concerning vesting of restricted stock for each named executive officer during the fiscal year ended August 31, 2007. There were no stock option exercises by any named executive officer in fiscal 2007.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
John D. Carter			6,801	377,115
Gregory J. Witherspoon			1,299	72,030
Tamara L. Lundgren			5,260	291,667
Donald W. Hamaker			8,238	406,728
Gary A. Schnitzer				

Pension Benefits at Fiscal 2007 Year-End

The following table sets forth certain information concerning accrued pension benefits for each named executive officer as of August 31, 2007.

Name	Age	Plan Name	Number of Years of Credited Service	Present Value of Accumulated Benefit ($)(1)	Payments Due Last Fiscal Year ($)
John D. Carter	61	Pension Retirement Plan	3	56,920	
		Suppl. Exec. Retirement Bonus Plan	3		
Gregory J. Witherspoon	61	Pension Retirement Plan	2	18,843	
		Suppl. Exec. Retirement Bonus Plan			
Tamara L. Lundgren	50	Pension Retirement Plan	2	21,178	
		Suppl. Exec. Retirement Bonus Plan	2		
Donald W. Hamaker	55	Pension Retirement Plan	2	31,304	
		Suppl. Exec. Retirement Bonus Plan			

Gary A. Schnitzer	65	Pension Retirement Plan	23	734,964
		Suppl. Exec. Retirement Bonus Plan	25	127,765

(1) The Pension Retirement Plan Present Value of Accumulated Benefit in the above table represents the actuarial present value as of August 31, 2007 of each named executive officer s frozen pension benefit assuming that the plan vesting requirements had been met. Benefit accruals under that plan ceased when the plan was frozen on June 30, 2006, but years of service are still relevant for purposes of satisfying the five-year vesting requirement. The SERBP Present Value of Accumulated Benefit in the table above represents the actuarial present value as of August 31, 2007 of each named executive officer s pension benefit calculated based on years of credited service and five highest consecutive calendar years of compensation as of that date, but assuming that the vesting requirement had been met. Actuarial present values were calculated using a discount rate of 6% and the mortality table set forth in IRS Revenue Ruling 2001-62, the same assumptions used in the pension benefit calculations reflected in the Company s audited balance sheet for the year ended August 31, 2007. See Compensation Discussion and Analysis Elements of Compensation Executive Benefits Retirement Plans. The retirement benefits do not include benefits payable to Mr. Schnitzer under the supplemental executive retirement plan of SIC in recognition of services provided to other companies controlled by the Schnitzer family.

Defined Benefit Retirement Plans

Pension Retirement Plan. The Company s Pension Plan is a defined benefit plan qualified under Section 401(a) of the Code. Persons who were non-union employees of the Company prior to May 15, 2006 are eligible to participate in the Pension Plan. Benefit accruals ceased on June 30, 2006. Generally, pension benefits become fully vested after five years of service and are paid in monthly installments beginning when the employee retires at age 65. Benefits accrued each year after August 31, 1986 and prior to June 30, 2006 in an amount equal to 2% of qualifying compensation earned in the applicable year. Qualifying compensation for executives includes base salary subject to a legal limit for the year ($110,000 for one-half of 2006). Retirement benefits are payable at any time after termination of employment, subject to actuarial reduction for early start of payment before age 65. A participant may choose payment from various actuarial equivalent life annuity options or a lump sum. Death benefits are payable to a beneficiary in a lump sum; a surviving spouse may elect payment as a life annuity.

Supplemental Executive Retirement Bonus Plan. The SERBP was adopted to provide a competitive level of retirement income for key executives selected by the Board. The SERBP establishes an annual target benefit for each participant based on continuous years of service. The target benefit is an annual amount paid for the life of the employee, which is the lesser of (i) the product of 2.6% and the participant s five consecutive calendar years of highest compensation (Final Average Compensation) multiplied by years of continuous service, but in no event more than 65% of Final Average Compensation, or (ii) the product of $238,746 (subject to annual adjustment) multiplied by a fraction of the number of the employee s continuous years of service to the greater of the number of continuous years of service or 25. Compensation includes all cash compensation from an employer that participates in the SERBP, including salary and adjusted bonus, without taking into account voluntary reductions. Adjusted bonus means the lesser of (i) the bonus amount paid or (ii) 25% of salary during the period for which the bonus was earned. The target benefit is reduced by 100% of primary social security benefits and the Company-paid portion of all benefits payable under the Company s qualified retirement plans to determine the actual benefit payable under the SERBP. The actual benefit will be paid as a straight life annuity or in other actuarially equivalent forms chosen by the participant. Benefits are payable under the plan only to participants who terminate employment with five years of continuous service. Mr. Carter, Ms. Lundgren and Mr. Schnitzer are the only named executive officers who participate in the SERBP.

Potential Payments Upon Termination or Change in Control

Change in Control Compensation

The Company has entered into change in control agreements with Mr. Carter and Ms. Lundgren which provide certain benefits to these officers if the officer s employment is terminated by the Company without cause or by the officer for good reason within 24 months after a change in control of the Company. In these agreements, change in control is generally defined to include:

- the acquisition by any person of 20 percent or more of the Company s outstanding Class A Common stock,
- the nomination (and subsequent election) of a majority of the Company s directors by persons other than the incumbent directors, or
- the consummation of a sale of all or substantially all of the Company s assets or an acquisition of the Company through a merger or share exchange.

In the change in control agreements, cause generally includes willful and continued failure to substantially perform assigned duties or willfully engaging in illegal conduct injurious to the Company, and good reason generally includes a change in position or responsibilities that does not represent a promotion, a decrease in compensation or a home office relocation of over 30 miles.

The Company granted LTIP performance shares to the named executive officers in fiscal 2006 and 2007 pursuant to which shares of Class A Common Stock will be issued based on the Company s performance during the applicable three-year performance periods relating to the awards. The award agreements relating to the LTIP performance shares provide for an accelerated payout of the performance shares upon a Company sale, which generally means a sale of the Company by means of a merger, share exchange or sale of substantially all of the assets of the Company. In addition, award agreements relating to all outstanding options and RSUs provide for accelerated vesting on a change in control of the Company (which has the same meaning as under the change in control agreements). An accelerated payout of LTIP performance shares and accelerated vesting of options and RSUs would occur even if

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the named executive officer s employment was not terminated in connection with the Company sale or change in control.

The following table sets forth the estimated change in control benefits that would have been payable to the named executive officers if a change in control (including a Company sale) had occurred on August 31, 2007 and, except as noted, each officer s employment had been terminated on that date either by the Company without cause or by the officer with good reason.

Name	Cash Severance Benefit ($)(1)	Insurance Continuation ($)(2)	Stock Option Acceleration ($)(3)	Restricted Stock Unit Acceleration ($)(4)	LTIP Performance Share Acceleration ($)(5)	EVA Bonus Bank Payment ($)(6)	Tax Gross-up Payment ($)(7)	Total ($)
John D. Carter	5,025,000	90,658	1,786,104	2,781,151	5,171,406		5,978,957	20,833,276
Gregory J. Witherspoon			147,775	559,876	1,121,054	45,673		1,874,378
Tamara L. Lundgren	3,892,410	50,620	229,022	2,152,269	3,890,094		3,922,132	14,136,547
Donald W. Hamaker			211,128	1,848,959	1,435,044	127,836		3,622,967
Gary A. Schnitzer			1,669,416	199,129	982,926	165,578		3,017,049

(1) *Cash Severance Benefit*. The change of control agreements with Mr. Carter and Ms. Lundgren provide for cash severance payments to each equal to three times the sum of base salary plus target bonus as in effect at the time of the change in control. These amounts are payable within five days after termination.

(2) *Insurance Continuation*. If cash severance benefits are triggered, the change in control agreements for Mr. Carter and Ms. Lundgren also provide for continuation of Company paid life, accident and medical insurance benefits for up to 36 months following termination of employment, except to the extent similar benefits are provided by a subsequent employer. The amounts in the table above represent 36 months of life, accident and medical insurance benefit payments at the rates paid by the Company for each of these officers as of August 31, 2007.

(3) *Stock Option Acceleration*. All outstanding unexercisable options for all named executive officers will immediately become exercisable on a change in control of the Company whether or not the officer s employment is terminated in connection with the change in control. Information regarding outstanding unexercisable options held by the named executive officers is set forth in the Outstanding Equity Awards table. The amounts in the table above represent the spread between $58.43 (the closing market price of the Company s Class A Common Stock on the last trading day of fiscal 2007) and the exercise price for each outstanding unexercisable option held by the applicable officer on August 31, 2007.

(4) *RSU Acceleration*. All RSUs for all named executive officers will immediately vest on a change in control of the Company whether or not the officer s employment is terminated in connection with the change in control.

Information regarding unvested RSUs held by the named executive officers is set forth in the Outstanding Equity Awards table. The amounts in the table above represent the number of shares subject to unvested RSUs multiplied by a stock price of $58.43 per share, which was the closing price of the Company s Class A Common Stock on the last trading day of fiscal 2007.

(5) *LTIP Performance Share Acceleration.* Under the terms of the LTIP performance share award agreements for the 2006-2008 performance period, upon a Company sale a named executive officer would receive a payout equal to a prorata portion (based on the portion of the performance cycle completed before the Company sale) of the amount determined under the following assumptions: performance payout factor shall be deemed to be 200% and total shareholder return payout factor shall be determined as of the closing date of the Company sale by using the closing market price of the Class A Common Stock on the last trading day prior to the closing date as the final stock price. Under the terms of the LTIP performance share award agreements for the 2007-2009 performance period, upon a Company sale a named executive officer would receive a payout in an amount equal to the greater of (a) 100% of the target share amount or (b) the payout calculated as if the performance period had ended on the last day of the Company s most recently completed fiscal quarter prior to the date of the Company sale, taking into account provisions in the award agreements for calculating performance for a shorter performance period and a partial year. The accelerated payout would occur whether or not the officer s employment was terminated in connection with the Company sale. Under the change in control agreements

with Mr. Carter and Ms. Lundgren, if severance benefits are triggered upon an officer s subsequent termination of employment, the officer would receive an additional amount for the 2006-2008 LTIP performance period calculated so that the payout is not prorated for the portion of the performance cycle completed before the Company sale. The amounts in the table above represent the value of outstanding LTIP performance share awards that would vest and be paid out pursuant to the terms of the award agreements on a Company sale based on a stock price of $58.43 per share, which was the closing price of the Company s Class A Common Stock on the last trading day of fiscal 2007, except that the amounts for Mr. Carter and Ms. Lundgren include additional amounts for the 2006-2008 LTIP performance period that would be payable under the change in control agreements upon termination of employment.

(6) *EVA Plan Bonus Bank Payment.* Bonus banks of participants under the EVA Plans are payable in full in the event of change in control as defined in the EVA Plans. Amounts in the table represent the named executive officer s bonus bank balance as of August 31, 2007.

(7) *Tax Gross-up Payment.* If any payments to Mr. Carter or Ms. Lundgren in connection with a change in control are subject to the 20% excise tax on excess parachute payments as defined in Section 280G of the Code, the Company is required under the change in control agreements to make a tax gross-up payment to the officer sufficient so that officer will receive benefits as if no excise tax were payable.

Benefits Triggered on Involuntary Termination of Employment without Cause

The following table sets forth the estimated benefits that would have been payable to the named executive officers if each officer s employment had been terminated on August 31, 2007, either by the Company without cause or, with respect to certain benefits, by the officer for good reason. Certain of these benefits are not payable if the employment termination occurred in connection with a change in control of the Company.

Name	Cash Benefit Severance ($)(1)	Insurance Continuation ($)(2)	Stock Option Acceleration ($)(3)	Restricted Stock Unit Acceleration ($)(4)	LTIP Performance-Share Acceleration ($)(5)	EVA Bonus Bank Payment ($)(6)	Total ($)
John D. Carter	3,350,000		1,786,104	2,781,151	2,630,402		10,547,657
Gregory J. Witherspoon					308,892	45,673	354,565
Tamara L. Lundgren	2,594,940		229,022	2,152,269	1,979,608		6,955,839
Donald W. Hamaker	1,305,088	28,686		1,168,600	413,215	127,836	3,043,425
Gary A. Schnitzer			1,669,416	199,129	286,649	165,578	2,320,772

(1) *Cash Severance Benefit.* Mr. Carter and Ms. Lundgren have entered into employment agreements providing for, among other things, cash severance benefits if the officer s employment is terminated by the Company without cause or by the officer for good reason before September 1, 2009, and not in connection with a change in control. Cause and good reason have the same meaning as under the change in control agreements described

above. The cash severance payment for each of these officers is equal to two times the sum of base salary plus target bonus as in effect at the time plus a pro rata portion of the target bonus for the fiscal year in which the termination occurs (based on the portion of the year worked). The table above does not include a pro rata portion of the target bonus for fiscal 2007 because bonus payments for fiscal 2007 are included in the Summary Compensation Table and no pro rata amounts would have been paid if the officer had terminated employment as of August 31, 2007. These amounts are payable within 30 days after termination. Under Mr. Hamaker s employment letter with the Company, if Mr. Hamaker s employment is terminated by the Company without cause on or before September 7, 2008, he would be paid over the following year, an amount equal to his annual base salary plus the average of his EVA and AICP bonus for the prior three years, provided that Mr. Hamaker does not accept employment with a competitor of the Company during this one-year period. Under the AICP, if a named executive officer (other than Mr. Carter and Ms. Lundgren) were involuntarily terminated by the Company without cause (as determined by the Committee), the named executive officer would receive, at the time that bonuses under the program were determined and paid for other participants, a bonus based on the officer s earnings for the portion of the year the participant was employed. For this purpose the officer would be deemed to have satisfied the officer s individual goals. The table above does not include a bonus payment for fiscal 2007 because bonus payments for fiscal 2007 are included in the Summary Compensation Table and no additional amount would have been paid if the officer had terminated employment as of August 31, 2007.

(2) *Insurance Continuation.* Mr. Hamaker s employment letter provides for continuation of Company paid medical, dental and vision insurance coverage, and the amount in the table represents 12 months of health, dental and vision insurance benefit payments at the rates paid by us for Mr. Hamaker as of August 31, 2007.

(3) *Stock Option Acceleration.* If cash severance benefits are triggered, the employment agreements with Mr. Carter and Ms. Lundgren also provide that all of the officer s outstanding unexercisable options will immediately become exercisable. Because Mr. Schnitzer is currently eligible for retirement, all of his outstanding unexercisable options would immediately become exercisable on termination of his employment. Information regarding outstanding unexercisable options held by Mr. Carter, Ms. Lundgren, and Mr. Schnitzer is set forth in the Outstanding Equity Awards table. The amounts in the table above represent the spread between $58.43 (the closing market price of the Company s Class A Common Stock on the last trading day of fiscal 2007) and the exercise price for each outstanding unexercisable options held by the applicable officer on August 31, 2007.

(4) *RSU Acceleration.* If cash severance benefits are triggered, the employment agreements for Mr. Carter and Ms. Lundgren also provide that all RSUs will immediately vest. Under Mr. Hamaker s employment letter, the vesting of the RSUs granted to him in June 2007 would accelerate if he were terminated by the Company without cause on or before September 7, 2008. Because Mr. Schnitzer is currently eligible for retirement, all of his RSUs would immediately vest on termination of his employment. Information regarding unvested restricted stock units held by the named executive officers is set forth in the Outstanding Equity Awards table. The amounts in the table above represent the number of shares subject to unvested RSUs multiplied by a stock price of $58.43 per share, which was the closing price of the Company s Class A Common Stock on the last trading day of fiscal 2007.

(5) *LTIP Performance Shares Acceleration.* Under the terms of the LTIP performance share awards granted in 2006 and 2007, if a named executive officer s employment is terminated by the Company without cause after the end of the twelfth month of the applicable performance period and prior to the vesting date, the named executive officer would be entitled to receive a prorated award to be paid following completion of the performance period, taking into account the number of performance shares that would otherwise have been issued based on the actual performance during the entire performance period and the portion of the performance period the officer had worked. The officer is required to provide a release of claims in connection with such payout. For this purpose, cause generally means (a) the conviction of the officer of a felony involving theft or moral turpitude or relating to the business of the Company, (b) the officer s continued failure to perform assigned duties, (c) fraud or dishonesty by the officer in connection with employment with the Company, (d) any incident materially compromising the officer s reputation or ability to represent the Company with the public, (e) any willful misconduct that substantially impairs the Company s business or reputation, or (f) any other willful misconduct by the officer that is clearly inconsistent with the officer s position or responsibilities The amounts in the table above assume that the payout level for the performance periods applicable to the grants in fiscal 2006 and 2007 is 100% (actual amounts may be more or less), and the value of outstanding performance shares is based on a stock price of $58.43 per share, which was the closing price of the Company s Class A Common Stock on the last trading day of fiscal 2007. The employment agreements for Mr. Carter and Ms. Lundgren provide that if cash severance is triggered, all LTIP performance shares would immediately vest, which may result in a benefit that is higher than the benefit provided for in the award agreement. For Mr. Carter and Ms. Lundgren, the amounts in the table represent payout at 100% of the performance shares based on the stock price of $58.43 per share.

(6) *EVA Plan Bonus Bank Payment.* Bonus banks of participants under the EVA Plans are payable in full in the event of a termination without cause as defined in the EVA Plans. Amounts in the table represent the named executive officer s EVA Plan bonus bank balance as of August 31, 2007.

Benefits Triggered on Retirement, Disability or Death

The following table sets forth the estimated benefits that would have been payable to the named executive officers if each officer s employment had been terminated on August 31, 2007 by reason of retirement, disability or death, excluding amounts payable under the Company s 401(k) Plan, Pension Plan and SERBP.

Name	Stock Option Acceleration ($)(1)	Restricted Stock Unit Acceleration ($)(2)	LTIP Performance-Share Acceleration ($)(3)	EVA Bonus Bank Payment ($)(4)	Total ($)
John D. Carter	1,786,104	2,781,151	1,898,719		6,465,974
Gregory J. Witherspoon	147,775	559,876	548,998	45,673	1,302,322
Tamara L. Lundgren	229,022	2,152,269	1,411,039		3,792,330
Donald W. Hamaker	211,128	1,848,959	819,918	127,836	3,007,841
Gary A. Schnitzer (5)	1,669,416	199,129	568,919	165,578	2,603,042

(1) *Stock Option Acceleration.* The terms of outstanding options provide for accelerated vesting on retirement (defined as normal retirement after reaching age 65, early retirement after reaching age 55 and completing 10 years of service or early retirement after completing 30 years of service), disability or death. Information regarding outstanding unexercisable options held by the named executive officers is set forth in the Outstanding Equity Awards table. The amounts in the table above represent the spread between $58.43 (the closing market price of the Company s Class A Common Stock on the last trading day of fiscal 2007) and the exercise price for each outstanding unexercisable options held by the applicable officer on August 31, 2007.

(2) *RSU Acceleration.* The terms of the RSU awards provide for accelerated vesting on retirement (as defined under Stock Option Acceleration above with respect to option agreements), disability or death. Information regarding unvested RSUs held by the named executive officers is set forth in the Outstanding Equity Awards table above. The amounts in the table above represent the number of shares subject to unvested RSUs multiplied by a stock price of $58.43 per share, which was the closing price of the Company s Class A Common Stock on the last trading day of fiscal 2007.

(3) *LTIP Performance Shares Acceleration.* Under the terms of the LTIP performance share awards, if a named executive officer s employment is terminated due to death or disability prior to the vesting date, the officer (or his or her estate) would receive a payout in an amount equal to the payout calculated as if the performance period had ended on the last day of the Company s most recently completed fiscal quarter prior to the date of employment termination, taking into account provisions in the award agreement for calculating performance for a shorter performance period and a partial year, and prorated for the portion of the performance period the officer had worked. If a named executive officer retires (as defined under Stock Option Acceleration above with respect to option agreements) prior to the vesting date, the named executive officer would be entitled to receive a prorated award to be paid following completion of the performance period, taking into account the number of performance shares that would otherwise have been issued based on the actual performance through the entire performance period and the portion of the performance period the officer had worked. The officer is required to

provide a release of claims in connection with such payout. Amounts in the table are based on the payout formula applicable in the event of death or disability, and the value of outstanding performance share awards that would vest and be paid out pursuant to these terms is based on a stock price of $58.43 per share, which was the closing price of the Company s Class A Common Stock on the last trading day of fiscal 2007.

(4) *EVA Plan Bonus Bank Payment.* Bonus banks of participants under the EVA Plans are payable in full in the event of a participant s death, disability or retirement (which means when the participant would receive benefits under the Company s Pension Plan). Amounts in the table represent the named executive officers bonus bank balances as of August 31, 2007.

(5) Mr. Schnitzer is currently eligible for retirement under the Company s various plans and would have received the benefits described in the table if he had retired as of August 31, 2007. The LTIP performance shares payout would be calculated at the end of the applicable performance period and prorated for the portion of the period he worked.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee selected PricewaterhouseCoopers LLP (PwC) as independent auditors for the Company to audit the Company s financial statements and internal control over financial reporting for the fiscal years ending August 31, 2007, 2008 and 2009. Aggregate fees of PwC for audit services related to the most recent two fiscal years, and other professional services for which they billed us during the most recent two fiscal years, were as follows:

	2007	2006
Audit Fees (1)	$ 1,714,704	$ 3,028,203
Audit Related Fees (2)	93,067	128,432
Tax Fees (3)	151,631	606,753
Total	$ 1,959,402	$ 3,761,888

(1) Comprised of the audit of the Company s annual financial statements, reviews of the Company s quarterly financial statements and the required audit of the Company s internal control over financial reporting, as well as consents related to and reviews of other documents filed with the Securities and Exchange Commission.

(2) Comprised of acquisition due diligence and consultations regarding internal controls and financial accounting and reporting.

(3) Comprised of services for tax compliance, tax return preparation, tax advice and tax planning.

A representative of PwC is expected to be present at the annual meeting and will have the opportunity to make a statement if he desires to do so and will be available to respond to appropriate questions.

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by the Company s independent accountants must be approved in advance by the Audit Committee to assure that such services do not impair the accountants independence from the Company. Accordingly, the Audit Committee has adopted an Audit and Non-Audit Services Pre-Approval Policy (the Policy) which sets forth the procedures and the conditions pursuant to which services to be performed by the independent accountants are to be pre-approved. Pursuant to the Policy, certain services described in detail in the Policy may be pre-approved on an annual basis together with pre-approved maximum fee levels for such services. The services eligible for annual pre-approval consist of services that would be included under the categories of Audit Fees, Audit-Related Fees and Tax Fees in the above table as well as services for limited review of actuarial reports and calculations. If not pre-approved on an annual basis, proposed services must otherwise be separately approved prior to being performed by the independent accountants. In addition, any services that receive annual pre-approval but exceed the pre-approved maximum fee level also will require separate approval by the Audit Committee prior to being performed. The Audit Committee may delegate authority to pre-approve audit and non-audit services to any member of the Audit Committee, but may not delegate such authority to management.

AUDIT COMMITTEE REPORT

The Audit Committee has:

Reviewed and discussed the audited financial statements with management.

Discussed with the independent auditors the matters required to be communicated by SAS 61.

Received the written disclosures and the letter from the Company s independent auditors required by Independence Standards Board Standard No. 1 and discussed with the independent auditors the auditors independence.

Based on the review and discussions above, recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the last fiscal year for filing with the SEC.

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Concluded its independent investigation into the Company s past practice of making improper payments to the purchasing managers of customers in Asia in connection with export sales of recycled ferrous metals. For more information about the independent investigation, including information regarding cooperation by the Company, including the Audit Committee, with the DOJ and the SEC and the Company s settlement of the investigation on October 16, 2006, see Item 3. Legal Proceedings in the Company s Annual Report on Form 10-K for the year ended August 31, 2006.

Overseen the work of the Company s Chief Compliance Officer and the implementation of the Company s anti-corruption program as required by the settlement of the DOJ and SEC investigations.

AUDIT COMMITTEE

William D. Larsson, Chair
Robert S. Ball
Judith A. Johansen
Ralph R. Shaw

SHAREHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

The Company s Bylaws require shareholders to give the Company advance notice of any proposal or director nomination to be submitted at any meeting of shareholders and prescribe the information to be contained in any such notice. For any shareholder proposal or nomination to be considered at the 2009 Annual Meeting of Shareholders, the shareholder s notice must be received at the Company s principal executive office no later than November 1, 2008. In addition, any proposal by a shareholder of the Company to be considered for inclusion in proxy materials for the Company s 2009 Annual Meeting of Shareholders must be received in proper form by the Company at its principal executive office no later than August 19, 2008.

DISCRETIONARY AUTHORITY

Although the Notice of Annual Meeting of Shareholders provides for transaction of any other business that properly comes before the meeting, the Board has no knowledge of any matters to be presented at the meeting other than the matters described in this Proxy Statement. The enclosed proxy, however, gives discretionary authority to the proxy holders to vote in accordance with their judgment if any other matters are presented.

GENERAL

The cost of preparing, printing and mailing this Proxy Statement and of the solicitation of proxies by the Company will be borne by the Company. Solicitation will be made by mail and, in addition, may be made by directors, officers and employees of the Company personally or by telephone, email, facsimile or telegram. The Company will request brokers, custodians, nominees and other like parties to forward copies of proxy materials to beneficial owners of stock and will reimburse such parties for their reasonable and customary charges or expenses in this connection.

The Company will provide to any person whose proxy is solicited by this proxy statement, without charge, upon written request to its Corporate Secretary, a copy of the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2007.

IT IS IMPORTANT THAT PROXIES BE PROVIDED PROMPTLY. THEREFORE, SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED TO SUBMIT A PROXY THROUGH THE INTERNET OR TO EXECUTE AND RETURN THE ENCLOSED PROXY IN THE REPLY ENVELOPE PROVIDED IF THIS PROXY WAS RECEIVED BY MAIL.

By Order of the Board of Directors,

Richard C. Josephson
Secretary

December 17, 2007

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SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
x Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

Schnitzer Steel Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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COMPANY #

SCHNITZER STEEL INDUSTRIES, INC.
ANNUAL MEETING OF SHAREHOLDERS
Wednesday, January 30, 2008
8:00 a.m.
Multnomah Athletic Club
1849 SW Salmon Street
Portland, Oregon 97205

Directions to the Schnitzer Steel Industries, Inc. 2008 Annual Meeting are available in the proxy statement which can be viewed at www.ematerials.com/schn.

Notice is hereby given that the Annual Meeting of Shareholders of Schnitzer Steel Industries, Inc. will be held at 1849 SW Salmon Street, Portland, Oregon on Wednesday, January 30, 2008 at 8:00 a.m.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on January 30, 2008.

1. **This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.**

2. **The Proxy Statement and Annual Report are available at www.ematerials.com/schn.**

3. **If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side of this notice on or before January 18, 2008 to facilitate timely delivery.**

Matters intended to be acted upon at the meeting are listed below.

The Board of Directors recommends that you vote FOR all nominees in Item 1:

1. Election of four Directors

01 Jill Schnitzer Edelson	03 Mark L. Palmquist
02 Judith A. Johansen	04 Ralph R. Shaw

You may immediately
vote your proxy
on the Internet at:
www.eproxy.com/schn

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on January 29, 2008.

Please have this Notice and the last four digits of your Social Security Number or Tax Identification Number available. Follow the instructions to vote your proxy.

Your Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

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To request paper copies of the proxy materials, which include the proxy card, proxy statement and annual report, please contact us via:

: **Internet** Access the Internet and go to www.ematerials.com/schn. Follow the instructions to log in, and order copies.

(**Telephone** Call us free of charge at 866-697-9377 in the U.S. or Canada, using a touch-tone phone, and follow the instructions to log in and order copies.

* **Email** Send us an email at ep@ematerials.com with Schn Materials Requested in the subject line. The email must include:

The 3-digit company # and the 11-digit control # located in the box in the upper right hand corner of this notice.

Your preference to receive printed materials via mail ***-or-*** to receive an email with links to the electronic materials.

If you choose email delivery you must include the email address.

If you would like this election to apply to delivery of material for all future meetings, write the word Permanent and include the last 4 digits of your Tax ID number in the email.

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SCHNITZER STEEL INDUSTRIES, INC.
ANNUAL MEETING OF SHAREHOLDERS
Wednesday, January 30, 2008
8:00 a.m.
Multnomah Athletic Club
1849 SW Salmon Street
Portland, Oregon 97205

Schnitzer Steel Industries, Inc.
P.O. Box 10047
Portland, Oregon 97296-0047

proxy

This proxy is solicited by the Board of Directors for use at the Annual Meeting on January 30, 2008.
The shares of stock of Schnitzer Steel Industries, Inc. that you hold will be voted as you specify on the reverse side.
If no choice is specified, the proxy will be voted FOR all nominees in Item 1.
By signing the proxy, you revoke all prior proxies and appoint John D. Carter and Richard D. Peach, and each of them with full power of substitution, to vote your shares on the matters shown on the reverse side and any other matters which may come before the Annual Meeting and all adjournments.

See reverse for voting instructions.

COMPANY #

There are three ways to vote your Proxy

Your telephone or Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK ««« EASY ««« IMMEDIATE

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on January 29, 2008.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you.

VOTE BY INTERNET http://www.eproxy.com/schn/ QUICK ««« EASY ««« IMMEDIATE

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on January 29, 2008.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we ve provided or return it to Schnitzer Steel Industries, Inc., c/o Shareowner Services^{SM}, P.O. Box 64873, St. Paul, MN 55164-0873.

If you vote by Phone or Internet, please do not mail your Proxy Card

ò *Please detach here* **ò**

The Board of Directors Recommends a Vote FOR Item 1.

1. Election of directors:	01 Jill Schnitzer Edelson 02 Judith A. Johansen	03 Mark L. Palmquist 04 Ralph R. Shaw	o Vote FOR all nominees (except as marked)	o Vote WITHHELD from all nominees

(Instructions: To withhold authority to vote for any indicated nominee,
write the number(s) of the nominee(s) in the box provided to the right.)

2. The proxies may vote in their discretion as to other matters which may come before the meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL.

Address Change? Mark Box o Indicate changes below:

Date

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy.