RUSSEL METALS INC. 2007 ANNUAL REPORT

POSITIONED FOR GROWTH

Annual Report 2007

RUSSEL METALS is one of the largest metals distribution companies in North America.

We conduct business primarily in three metals distribution segments: metals service centers; energy tubular products; and steel distributors.

METAL SERVICES CENTERS

We provide processing and distribution services to a broad base of more than 27,000 end users through a network of 53 Canadian and 12 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada and the Southeastern and Midwestern regions in the United States.

ENERGY TUBULAR PRODUCTS

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the western United States, from 5 Canadian and 2 U.S. locations. We purchase these products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills.

STEEL DISTRIBUTORS

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an “as is” basis. Our U.S. operation processes some coil for its customer base at its cut-to-length facility in Houston, Texas. Our steel distributors source their steel both domestically and off shore. The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing.

> five-year financial highlights

For the years ended December 31	2007	2006	2005	2004	2003
OPERATING RESULTS (millions)					
Revenues	**$ 2,559.2**	$ 2,692.1	$ 2,614.1	$ 2,411.4	$ 1,503.8
Net earnings	**111.2**	158.7	124.5	177.8	18.5
EBIT (Notes)	**176.8**	250.2	202.5	305.7	55.1
EBIT as a % of revenue	**6.9%**	9.3%	7.7%	12.7%	3.7%
EBITDA (Notes)	**197.2**	270.2	221.7	324.3	71.4
EBITDA as a % of revenue	**7.7%**	10.0%	8.5%	13.4%	4.7%
Basic earnings per common share ($)	**$ 1.77**	$ 2.65	$ 2.47	$ 3.64	$ 0.41
BALANCE SHEET INFORMATION (millions)					
Metals					
Accounts receivable	**$ 337.2**	$ 324.7	$ 356.1	$ 356.8	$ 247.5
Inventories	**572.6**	664.0	474.0	553.9	303.1
Prepaid expenses and other assets	**4.7**	3.8	1.3	1.7	2.0
Accounts payable and accruals	**(272.3)**	(262.8)	(291.2)	(318.5)	(207.9)
Net working capital – Metals	**642.2**	729.7	540.2	593.9	344.7
Fixed assets	**210.4**	170.9	162.3	161.6	165.1
Goodwill and intangibles	**53.4**	9.2	9.2	9.2	4.2
Net assets employed in metals operations	**906.0**	909.8	711.7	764.7	514.0
Other operating assets	**20.4**	21.5	22.0	22.4	23.3
Net income tax assets and liabilities	**(3.7)**	(19.3)	(9.6)	(59.3)	(1.5)
Deferred financing charges	**0.3**	6.8	7.2	8.4	3.5
Pension and benefit liabilities	**(1.4)**	(2.6)	(8.9)	(10.2)	(11.5)
Other corporate assets and liabilities	**(43.8)**	(27.6)	(24.6)	(26.2)	(5.5)
Total net assets employed	**$ 877.8**	$ 888.6	$ 697.8	$ 699.8	$ 522.3
CAPITALIZATION (millions)					
Bank indebtedness, net of (cash)	**$ (181.8)**	$ (209.9)	$ (44.9)	$ 32.6	$ 59.1
Long-term debt (incl. current portion)	**175.8**	203.9	204.0	210.6	209.4
Total interest bearing debt, net of (cash)	**(6.0)**	(6.0)	159.1	243.2	268.5
Market capitalization (Notes)	**1,605.0**	1,665.2	1,106.8	773.3	378.2
Total firm value	**$ 1,599.0**	$ 1,659.2	$ 1,265.9	$ 1,016.5	$ 646.7
OTHER INFORMATION (Notes)					
Common shareholders' equity (millions)	**$ 883.8**	$ 894.6	$ 538.7	$ 456.6	$ 253.8
Book value per share ($)	**$ 14.01**	$ 14.34	$ 10.63	$ 9.15	$ 5.90
Free cash flow (millions)	**$ 125.3**	$ 158.8	$ 130.6	$ 189.4	$ 7.6
Capital expenditures (millions)	**$ 16.6**	$ 27.6	$ 26.5	$ 25.4	$ 34.9
Depreciation and amortization (millions)	**$ 20.4**	$ 20.0	$ 19.2	$ 18.6	$ 16.3
Earnings multiple	**14.4**	10.1	8.8	4.3	21.4
Firm value as a multiple of EBIT	**9.0**	6.6	6.3	3.3	11.7
Firm value as a multiple of EBITDA	**8.1**	6.1	5.7	3.1	9.1
Interest bearing debt/EBITDA	**0.9**	0.8	0.9	0.6	3.8
Debt as a % of capitalization	**17%**	19%	27%	32%	51%
Market capitalization as a % of book value	**182%**	186%	205%	169%	149%
Return on capital employed	**20%**	28%	29%	44%	11%
COMMON SHARE INFORMATION					
Ending outstanding common shares	**63,066,092**	62,366,842	50,656,009	49,887,659	43,023,342
Average outstanding common shares	**62,835,303**	59,887,382	50,461,330	48,671,915	40,021,479
Dividend yield (Notes)	**7.1%**	6.0%	4.6%	4.5%	3.6%
Dividend per share (Notes)	**$ 1.80**	$ 1.60	$ 1.00	$ 0.70	$ 0.32
Share price – High	**$ 34.47**	$ 29.38	$ 22.75	$ 15.75	$ 8.90
Share price – Low	**$ 22.75**	$ 21.61	$ 13.40	$ 11.61	$ 4.65
Share price – Ending	**$ 25.45**	$ 26.70	$ 21.85	$ 15.50	$ 8.79

NOTES:

(1) In this Annual Report we use certain financial measures that do not comply with Canadian generally accepted accounting principles (GAAP) or have standardized meanings, and thus, may not be comparable to similar measures presented by other companies, for example EBIT and EBITDA and Other Information in the above table. Management believes that EBIT and EBITDA may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. EBIT and EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with Canadian GAAP. EBIT, EBITDA and a number of the ratios provided under Other Information are used by debt and equity analysts to compare our performance against other public companies.

This terminology is defined on page 52, under Definitions. See financial statements for GAAP earnings.

(2) Statements contained in this document that relate to Russel Metals' beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. Russel Metals cautions readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting Russel Metals' operations, markets, products, services and prices that could cause the Company's actual results, performance or achievements to be materially different from those forecasted or anticipated by Russel Metals in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

For the year ended December 31, 2007

positioned for future opportunities

In 2007, the North American steel industry experienced a year of further consolidation, relatively stable steel prices and soft demand. The consolidation frenzy that the steel industry experienced in 2006 continued into 2007 but tapered off somewhat near the end of the year. The credit crisis in the U.S. spilled over to the world economy and capital markets, cooling down both the debt and private equity markets.

On September 28, 2007, the Company completed its first major acquisition since Acier Leroux in 2003 with the purchase of JMS Metal Services for $109 million in cash. JMS Metal Services is a full-line distributor of carbon steel and non-ferrous products with eight strategically located processing and distribution facilities in Alabama, Arkansas, Georgia, Kentucky and Tennessee. The JMS Metal Services group of companies has been renamed JMS Russel Metals, and we welcome our new employee group with John Reid as President. These operations provide us with a platform for future growth in a new geographic region, the Southeastern and Midwestern United States.

The JMS Russel Metals operations were immediately accretive to earnings. Since the acquisition occurred on the last business day of the third quarter, the results of JMS Russel Metals are included in the operating results only for the fourth quarter.

Historically, the Company rationalizes certain operations following an acquisition. Since JMS Russel Metals is in a new geographical region, there will be no rationalization of operations as a result of the acquisition. We will move the JMS Russel Metals operations onto our centralized computer systems in the first half of 2008.

Russel Metals – Year 2007 Operations

In 2007, our net earnings were $111 million, or $1.77 per common share. These results were lower than our net earnings of $159 million, or $2.65 per common share, recorded in 2006.

The slowdown in conventional gas drilling in Alberta and the weak forestry sector in British Columbia negatively impacted earnings of our service centers in those provinces. The strong Canadian dollar should have impacted our Ontario customers but, to date, our segment of the Ontario market, which includes very little automotive, has held up quite nicely. The U.S. dollar weakness, strong international steel pricing and excessive inventories caused many of our steel distributor customers to curtail their purchasing activities.

Our energy tubular products segment continued to have strong results, led by our U.S. operation, Pioneer Pipe, which services conventional gas drilling, and the Canadian operation, Comco Pipe & Supply Company, which services the oil sands in Northern Alberta. Comco Pipe & Supply Company ended 2007 with the strongest results in its history. The operations that service primarily the gas drilling industry in Western Canada experienced lower demand levels due to lower rig counts and drilling activity. Excess inventory, Canadian

dollar strength and concern about Alberta Royalty increases led to decreased investment in Alberta conventional gas drilling activities. A bright side to this picture is the Canadian government announcement in January 2008 that it will review carbon steel welded pipe imported from China, which should help to tighten supply and reduce excess inventories in the sector.

For most of 2007 inventory reduction was a high priority of our management team. Throughout the year we have continued to align our inventories with our perception of forward demand. Inventory levels improved significantly, decreasing by $89 million on a same store basis excluding foreign exchange.

The Company's cash flows are counter-cyclical due to changes in working capital on the balance sheet. Current assets, excluding cash, comprise 76% of our net assets. This enables us to generate significant cash flow in periods of economic weakness; however, we use significant cash in periods of economic expansion. In 2007, the Company generated significant positive cash flows from operations of $211 million and free cash flow of $125 million supporting payment of $110 million to shareholders by way of our industry-leading dividend.

Shareholder Returns

The maintenance of a strong dividend policy has been, and continues to be, a primary goal. For the sixth consecutive year, we increased the annual dividend. Our annual dividend of $1.80 per share has continued to make our common shares one of the top yielding securities in the S&P/TSX Composite Index.

We believe that our cash flow, balance sheet and debt to equity ratio support our dividend policy. The payment of dividends reduces the restricted payments basket in our U.S. Senior Notes indenture. At December 31, 2007, this basket had available in excess of $400 million for the payment of dividends.

On February 18, 2008, we filed a notice of intention to initiate a normal course issuer bid, which allows us to purchase up to six million of our common shares. Our share price has recently traded at prices which we believe do not truly reflect the value of the Company. The purchase of six million shares will not jeopardize our ability to pay our dividend. Debt to total capitalization would be approximately 19%. We would still have the ability to finance acquisitions of a size comparable to our recent acquisition of JMS Metal Services.

Succession Planning

Recently, the Company announced that Brian Hedges, previously our Chief Financial Officer, has been appointed Chief Operating Officer. In addition, Marion Britton, previously our Chief Accounting Officer, has been appointed Chief Financial Officer. We are delighted that, with these appointments, succession planning is in place and that our goals, direction, and culture will be reinforced and enhanced. The Company will continue to emphasize shareholder returns and to ensure that earnings are returned to shareholders through a strong dividend policy. Both Brian and Marion have been critical contributors since the current management team was formed in 1997.

Environment

The profile of environmental issues throughout the world is on the rise. Shareholders are holding companies responsible for decisions that affect the environment. The reduction of greenhouse gases has become a high priority. As a distributor, we are not a producer of significant greenhouse gases, but we have been taking action to reduce our greenhouse emissions. We have started to utilize smart terminals in our truck fleet. These computer GPS based systems optimize vehicle routing and monitor speeds to help reduce emissions.

Our Service Center customer base exceeds 18,000 customers in Canada and will be impacted by environmental issues in the same manner as the Canadian economy. Some of the 18,000 customers will benefit and others will be penalized but at this point in the evolution the final impact is not predictable.

Environmental issues are given a high priority at Russel Metals. Our Board has an Environmental Management and Health & Safety Committee whose purpose is to review compliance policies and procedures in accordance with legislative and regulatory requirements. On a quarterly basis, our environmental coordinator reports to the Board of Directors on new legislation and environmental issues relating to our operations. We proactively manage environmental and health and safety issues throughout our operations.

Corporate Governance

We were pleased to announce the appointment of Ms. Alice Laberge to our Board during 2007. As previously announced, Ms. Laberge's financial expertise will complement our current slate of directors. I would like to personally welcome Alice to the Board.

Mr. Robbert Hartog, a long-term director and former audit committee chair, passed away on January 27, 2008. Mr. Hartog joined our Board on May 14, 1997 and his guidance and counsel was invaluable throughout his tenure. He will be sadly missed.

The Company continues to stress strong corporate governance as a primary goal. Once again the Company was recognized with a high ranking in *The Globe and Mail*'s Board Games analysis of Canada's top corporations.

Outlook

We are starting to see revenue improvement and margin enhancement due to price increases. With the unsettled outlook for the North American economy, we cannot forecast past the first quarter of 2008 at this time; however, we anticipate continuing enhancement of our margins in the first quarter in line with price increases announced by the North American steel mills which will provide higher margins on our existing inventories. Furthermore, JMS Russel Metals operations, acquired at the end of the third quarter in 2007, are expected to provide additional accretion on a comparative basis versus the first three quarters in 2007.

E.M. Siegel, Jr.
President and Chief Executive Officer

February 18, 2008

For the year ended December 31, 2007

The Management's Discussion and Analysis of Financial Condition and Results of Operations of Russel Metals Inc. and its subsidiaries provides information to assist the reader and should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2007, including the notes thereto. Statements contained in this document that relate to our beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. We caution readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting our operations, markets, products, services and prices that could cause our actual results, performance or achievements to be materially different from those forecasted or anticipated by us in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of measures that are not prescribed by generally accepted accounting principles (GAAP) and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and other interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. The measures we use are specifically defined where they are first used in this report.

While we believe that non-GAAP measures are helpful supplemental information, they should not be considered in isolation as an alternative to net income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in accordance with GAAP.

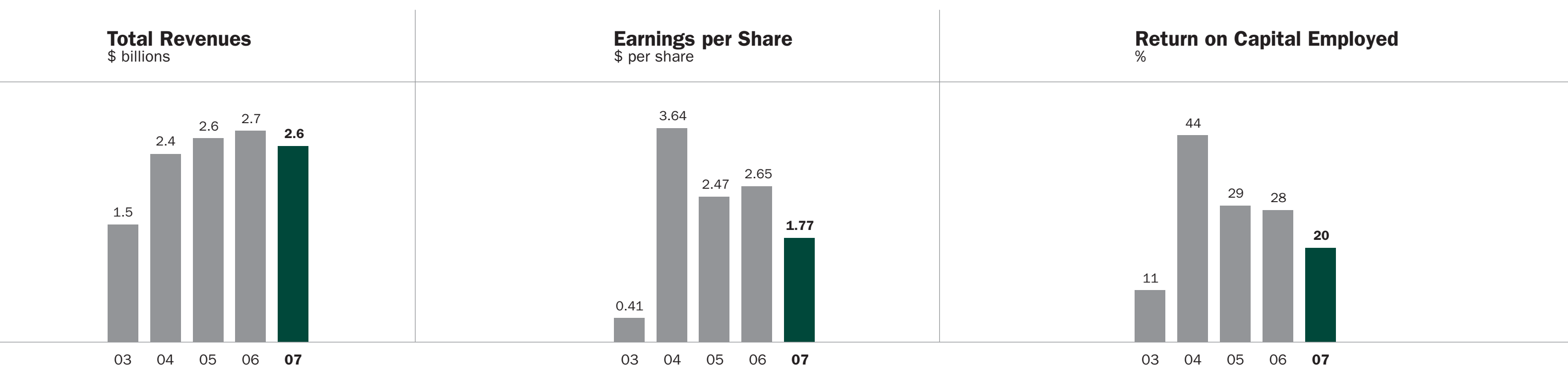
> ***Additional information related to Russel Metals Inc., including our Annual Information Form, may be obtained from SEDAR at www.sedar.com or on our website at www.russelmetals.com.***

Overview

We are one of the largest metals distribution companies in North America. We conduct business primarily in three metals distribution segments: metals service centers; energy tubular products; and steel distributors.

Our basic earnings per share of $1.77 for 2007 were lower than those reported for 2006 of $2.65 per share. Lower volumes in the metals service centers and steel distributors segments as well as lower gross margins in all segments, caused mainly by excess inventories in the industry and lower demand, were the most significant factors for this decline.

On September 28, 2007, we completed the acquisition of the JMS Metal Services group of companies consisting of eight metals service center facilities located in Tennessee, Arkansas, Alabama, Kentucky and Georgia. The operations represent a nucleus in a region in the U.S. where we previously did not have service center locations. The JMS Metal Services group of companies had revenues of approximately $190 million for the trailing twelve month period prior to the acquisition date. As the acquisition occurred at the end of the third quarter of 2007, our income statement includes revenues and operating earnings of JMS Metal Services only for the last three months of 2007.



Summarized Financial Information

The table discloses selected information related to revenues, earnings and common share information over the last eight quarters.

2007

(millions, except per share data and volumes)	Three Months Ended Mar. 31	Three Months Ended June 30	Three Months Ended Sept. 30	Three Months Ended Dec. 31	Year Ended Dec. 31
Revenues	**$ 683.7**	**$ 652.8**	**$ 624.3**	**$ 598.4**	**$ 2,559.2**
Earnings from operations	**46.0**	**48.9**	**46.8**	**37.6**	**179.3**
Net earnings					
– continuing operations	**28.7**	**29.3**	**27.9**	**23.7**	**109.6**
Net earnings	**28.7**	**29.3**	**27.9**	**25.3**	**111.2**
Basic earnings per common share					
– continuing operations	**$ 0.46**	**$ 0.47**	**$ 0.44**	**$ 0.38**	**$ 1.74**
Basic earnings per common share	**$ 0.46**	**$ 0.47**	**$ 0.44**	**$ 0.40**	**$ 1.77**
Diluted earnings per common share					
– continuing operations	**$ 0.46**	**$ 0.46**	**$ 0.44**	**$ 0.37**	**$ 1.73**
Diluted earnings per common share	**$ 0.46**	**$ 0.46**	**$ 0.44**	**$ 0.40**	**$ 1.76**
Market price of common shares					
High	**$ 28.55**	**$ 34.47**	**$ 33.35**	**$ 32.47**	**$ 34.47**
Low	**$ 25.27**	**$ 27.75**	**$ 26.50**	**$ 22.75**	**$ 22.75**
Number of common shares traded	**20,036,046**	**21,195,621**	**13,412,506**	**16,500,623**	**71,144,796**

2006

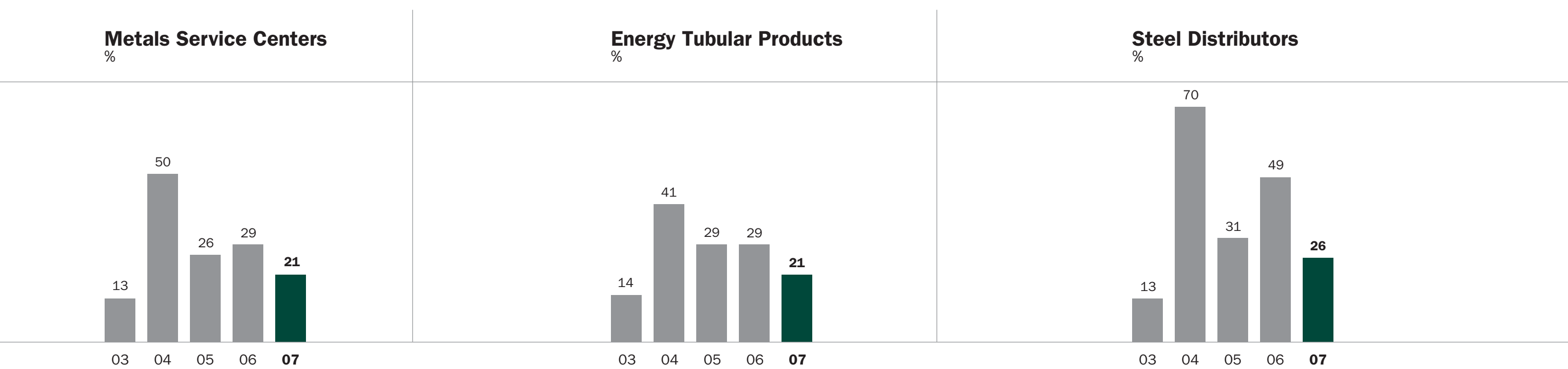
(millions, except per share data and volumes)	Three Months Ended Mar. 31	Three Months Ended June 30	Three Months Ended Sept. 30	Three Months Ended Dec. 31	Year Ended Dec. 31
Revenues	$ 740.7	$ 685.9	$ 672.3	$ 593.2	$ 2,692.1
Earnings from operations	61.2	70.0	69.2	48.6	249.0
Net earnings					
– continuing operations	37.3	46.2	44.6	30.6	158.7
Net earnings	37.3	46.2	44.6	30.6	158.7
Basic earnings per common share					
– continuing operations	$ 0.71	$ 0.74	$ 0.72	$ 0.49	$ 2.65
Basic earnings per common share	$ 0.71	$ 0.74	$ 0.72	$ 0.49	$ 2.65
Diluted earnings per common share					
– continuing operations	$ 0.70	$ 0.74	$ 0.71	$ 0.49	$ 2.63
Diluted earnings per common share	$ 0.70	$ 0.74	$ 0.71	$ 0.49	$ 2.63
Market price of common shares					
High	$ 27.50	$ 27.47	$ 29.05	$ 29.38	$ 29.38
Low	$ 21.61	$ 22.15	$ 24.30	$ 25.95	$ 21.61
Number of common shares traded	17,295,366	18,556,903	16,513,705	15,387,461	67,753,435

Results of Operations

The following table provides operating profits before interest, taxes and restructuring costs. The corporate expenses included are not allocated to specific operating segments. Gross margins (revenue minus cost of sales) as a percentage of revenues for the operating segments are also shown below. The table shows the segments as they are reported to management and they are consistent with the segment reporting in our consolidated financial statements.

(millions, except percentages)	**2007**	2006	2005	**2007 Change as a % of 2006**	2006 Change as a % of 2005
Segment Revenues					
Metals service centers	**$ 1,435.2**	$ 1,507.9	$ 1,538.5	**(5%)**	(2%)
Energy tubular products	**677.2**	614.3	595.2	**10%**	3%
Steel distributors	**436.1**	559.4	468.7	**(22%)**	(19%)
Other	**10.7**	10.5	11.7		
	$ 2,559.2	$ 2,692.1	$ 2,614.1	**(5%)**	3%
Segment Operating Profits					
Metals service centers	**$ 101.9**	$ 126.4	$ 115.2	**(19%)**	10%
Energy tubular products	**54.5**	62.2	54.0	**(12%)**	15%
Steel distributors	**39.1**	76.7	46.6	**(49%)**	65%
Corporate expenses	**(18.6)**	(18.2)	(16.8)	**(2%)**	(8%)
Other	**2.4**	1.9	2.4		
Operating profits from continuing operations	**$ 179.3**	$ 249.0	$ 201.4	**(28%)**	24%
Segment Gross Margin as a % of Revenues					
Metals service centers	**24.1%**	25.1%	23.1%		
Energy tubular products	**14.4%**	16.5%	14.6%		
Steel distributors	**13.5%**	18.3%	14.3%		
Total operations	**19.9%**	21.9%	19.8%		
Segment Operating Profits as a % of Revenues					
Metals service centers	**7.1%**	8.4%	7.5%		
Energy tubular products	**8.0%**	10.1%	9.1%		
Steel distributors	**9.0%**	13.7%	9.9%		
Total operations	**7.0%**	9.3%	7.7%		

Return on Averaged Capital Employed



Metals Service Centers

a) *Description of operations*

We provide processing and distribution services to a broad base of approximately 27,000 end users through a network of 53 Canadian locations and 12 U.S. locations. Our metals service centers carry a broad line of products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. We purchase these products primarily from steel producers in North America and process and package them in accordance with end user specifications. We service all major geographic regions of Canada and the Southeastern and Midwestern regions in the United States. Within Canada, our service centers operate under the names Russel Metals, Métaux Russel, A.J. Forsyth, Acier Leroux, Acier Loubier, Acier Richler, B&T Steel, Leroux Steel, Mégantic Métal, Russel Metals Specialty Products, Métaux Russel Produits Spécialisés, McCabe Steel and York-Ennis. Our U.S. service center operations are conducted under the names Russel Metals Williams Bahcall, JMS Russel Metals and Baldwin International. Our Russel Metals Williams Bahcall operations focus primarily on the distribution of general line carbon products through three facilities located in Wisconsin. JMS Metal Services, which was acquired September 28, 2007, has operations in Tennessee, Arkansas, Alabama, Kentucky and Georgia. These operations process and distribute carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. These operations changed their name to JMS Russel Metals. Baldwin International distributes specialty alloy products from its facility in Ohio.

b) *Factors affecting results*

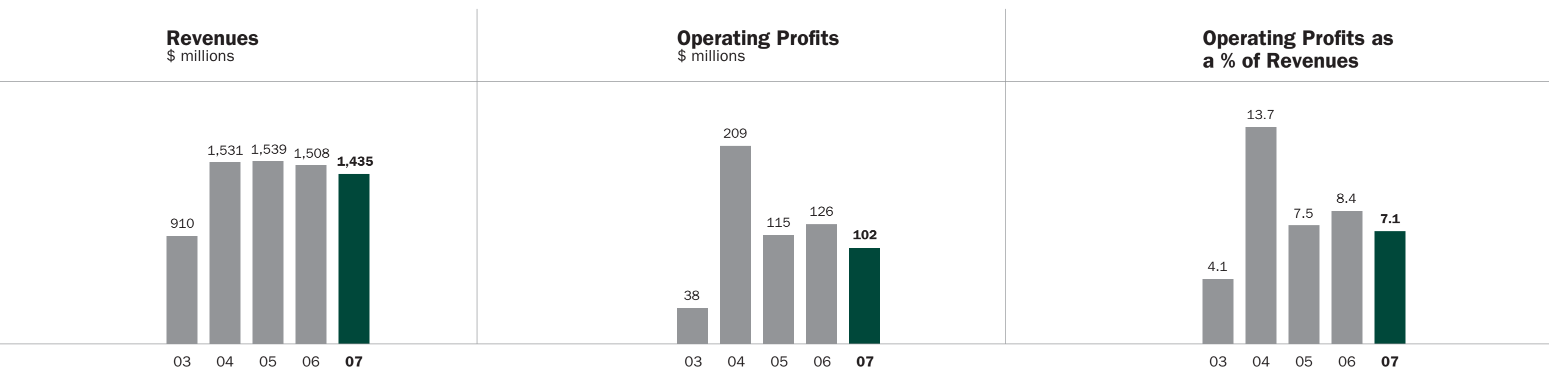
The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted 2007, 2006 and 2005 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle. Steel prices are influenced by overall demand, trade sanctions, scrap steel pricing and product availability. Supply side management, practiced by steel producers in North America, and international supply and demand, which impacts steel imports, affect product availability. Trade sanctions are initiated either by steel mills or government agencies in North America and, less directly, worldwide. Steel prices continue to be volatile; however, they remain at levels above historical norms.

Demand is significantly affected by economic cycles with revenues and operating profits fluctuating with the level of general business activity in the markets serviced. We are most impacted by the manufacturing (excluding automotive), resource and construction segments of the Canadian economy. Demand has been relatively stable over the last several years with softening starting in the fourth quarter of 2006 and continuing throughout 2007. Excluding tons shipped by JMS Russel Metals, tons shipped for 2007 were approximately 8% less than 2006, with a decline in the first half of 2007 of approximately 13% and only a small decline in the second half of 2007 compared to the second half of 2006.

Canadian service centers, which represent the majority of our metals service centers operations, are particularly affected by regional general economic conditions. We have operations in all regions of Canada and believe that we have a national market

Metals Service Centers



share above 25%. This large market share and our diverse customer base of approximately 18,000 customers suggest that our results should mirror the performance of the regional economies of Canada excluding the automotive sector in which we are not a significant participant.

Our U.S. operations have approximately 9,000 customers and with the addition of the JMS Russel Metals operations we have an increased presence in the U.S.

Our Canadian operations are affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. The strength of the Canadian dollar during the second half of 2007 resulted in some products that we purchased being subsequently available in the marketplace at a lower cost, resulting in lower gross margins during the second half of 2007.

c) Metals service centers segment results – 2007 compared to 2006

Revenues for 2007 decreased by 7% compared to 2006, excluding revenues related to JMS Russel Metals which was acquired in September 2007, mainly due to demand. Overall tons shipped for 2007 were approximately 8% lower than those shipped in 2006. Tons shipped declined in all regions with Ontario representing the largest decline in tons shipped and the U.S. service centers having the least decline in tons shipped. The decline in tons shipped in Ontario, which started in the third quarter of 2006, stabilized in the fourth quarter of 2007.

Our British Columbia region decline in tons for the year is similar to the decline in the segment; however, the decline occurred in the last half of 2007 and was related to reduced demand in the forestry sector.

The average selling price of metal for 2007 was approximately the same as the average selling price for 2006. Selling prices declined to current levels in the third quarter of 2005 and have moved up and down within a 5% band of this level during the last two and one-half years.

Gross margin as a percentage of revenues at 24.1% for 2007 represents a decline compared to 25.1% for 2006. Lower demand resulting in excess inventories in the service center industry has resulted in margin pressure.

The average revenue per invoice for 2007 was approximately $1,801 compared to $1,906 for 2006.

We believe that the strength of the Canadian dollar in 2007 adversely impacted those of our customers in Ontario and Quebec who sell finished products outside of Canada and, consequently, we experienced reduced volumes in these regions. To date, the change in the Canadian dollar versus the U.S. dollar has not been a significant factor in relation to inventory costs in the metals service centers as inventory is purchased for our Canadian operations from Canadian or U.S. suppliers based on the landed cost at the specific location in Canada. The strength of the Canadian dollar during the last half of 2007 has reduced the replacement cost for certain products sourced from the U.S. This has put pressure on selling prices and gross margins as customers expect the lower exchange rate to immediately be factored into the price they pay for metal.

Operating expenses in our metals service centers segment decreased by $16.9 million, or 7%, compared to 2006, prior to the operating expenses of JMS Russel Metals operations. This was primarily due to lower compensation expense. Our compensation plans are based on pay for performance and our compensation expenses declined with the lower profits in our operations. In addition, we had lower plant and trucking expenses related to lower volumes and lower bad debts in 2007 as one large claim in 2006 was not repeated.

Metals service centers operating profits for 2007 of $101.9 million were $24.5 million lower than 2006, mainly related to lower volumes and gross margins partially offset by lower operating expenses.

d) Metals service centers segment results – 2006 compared to 2005

Revenues for 2006 were 2% lower than revenues for 2005. The average selling price of steel for 2006 declined approximately 3% from the average selling price for 2005. The average selling price declined each quarter for the first three quarters in 2005. Average selling price remained relatively constant after that, with the average selling prices for the 2006 year being equivalent to the average selling price for the fourth quarter of 2005.

Overall tons shipped for 2006 were approximately 1% higher than those shipped in 2005. Tons shipped in Alberta and British Columbia were both up 10% due to oil and gas related activity in Alberta and infrastructure build in both provinces. Volumes were

strong at our Russel Metals Williams Bahcall operations with an increase of approximately 12% in tons shipped due to improved customer demand in the Wisconsin region. Tons shipped declined approximately 9% in our Atlantic region due to lack of project work in this area. All other regions had tons shipped that approximated those of 2005.

Gross margin as a percentage of revenues improved from 23.1% for 2005 to 25.1% for 2006 related to stable inventory costs during 2006 compared to 2005 when we had higher cost inventory on hand as purchasing prices were declining.

The average revenue per invoice for 2006 was approximately $1,906 compared to the average for 2005 of approximately $1,888.

Operating expenses in our metals service centers segment increased by $11.8 million, or 5%, compared to 2005. This was primarily due to higher compensation expense, delivery costs and bad debt expense. The increase in compensation expense relates to higher wages in regions where the volumes are up, as well as higher costs to maintain staff in Western Canada and higher amounts within our pay for performance plans. The increase in bad debt expense occurred in the first quarter of 2006 related to a specific customer.

Metals service centers operating profits for 2006 of $126.4 million were $11.2 million higher than 2005, related to lower cost of goods sold and the elimination in 2006 of inventory holding losses experienced in 2005.

Energy Tubular Products

a) Description of operations

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the western United States, from 5 Canadian and 2 U.S. locations. We purchase these products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills. Our energy tubular products segment operates under the names Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Steel.

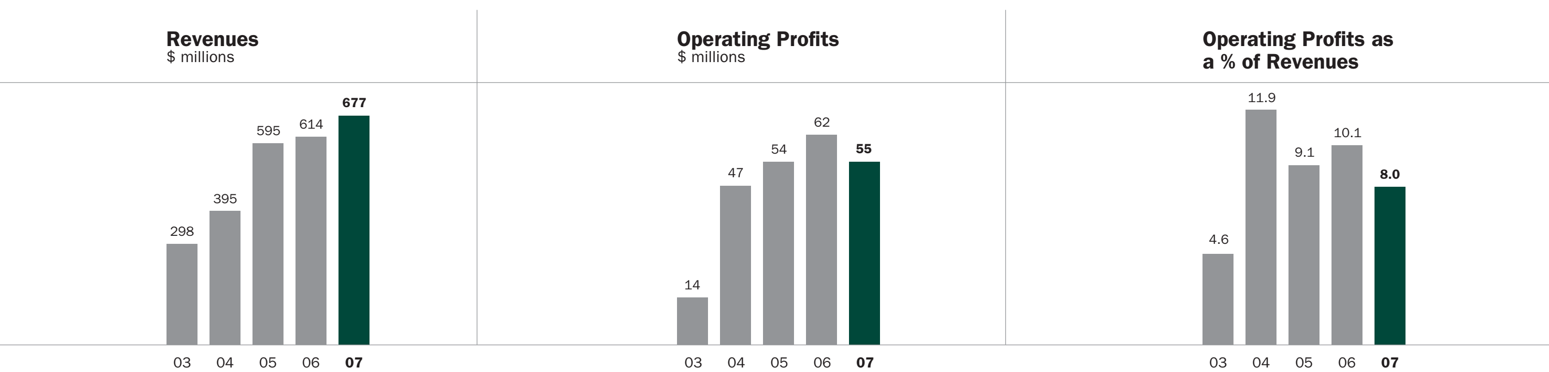
b) Factors affecting results

The following is a general discussion of the factors affecting our energy tubular products segment operations. More specific information on how these factors impacted 2007, 2006 and 2005 is found in the sections that follow.

Oil and gas prices, which are among the factors that can impact oil rig count and subsequent drilling activities particularly in Western Canada, have the ability to significantly affect demand for our products. Rig activity was significantly lower in 2007 versus 2006 and 2005. Rig activity in 2007 declined to levels lower than those experienced at any time in the last 10 years. Oil and gas prices denominated in Canadian dollars, which dropped during 2006, have shown only modest improvement in 2007.

Our Canadian operations are affected by the U.S. dollar exchange rate since some products are sourced outside Canada and are priced in U.S. dollars. The appreciation of the Canadian dollar has reduced the average cost of metal purchased. This reduction in cost has resulted in pressure on selling prices, resulting in lower margins on inventory purchased earlier in the year.

Energy Tubular Products



The Province of Alberta announced higher royalty payments to the Alberta provincial government starting in 2009. This, along with pricing and foreign exchange rates, has impacted the level of oil and gas rig activity, oil sands activity and investment in this sector in the second half of 2007.

Oil and gas drilling in Western Canada usually peaks during the period from October to March; thus our revenues and operating profits have historically been higher during these two quarters. The first quarter remained strong in both 2006 and 2007; however, the fourth quarter was not stronger than the third quarter in both years. This was caused by a decline in volumes for the traditional Western Canada oil and gas drilling pipe and an increase in volumes related to oil sands projects in northern Alberta, gas drilling in western U.S. and sales to the utilities sector which do not follow the seasonal patterns of oil and gas drilling. Oil and gas drilling in Western Canada was significantly lower in 2007; however, activity in the oil sands of northern Alberta and line pipe volumes in the U.S. have offset this decline.

Pricing is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade sanctions have not been a factor for pipe products during the reported period; however, it may improve pricing in 2008 as both Canada and the U.S. initiated actions against Chinese pipe at the end of 2007 or early 2008.

c) Energy tubular products segment results – 2007 compared to 2006

Revenues increased 10% to $677.2 million in 2007 compared to 2006. The increase in revenues is a result of volume increases in 2007 related to large transactional sales at lower margins in both Canada and the U.S.

Comco Pipe, which services the oil exploration activities in the oil sands of northern Alberta, had a record year in volumes and operating profits. Our U.S. operation distributing line pipe to the oil and gas industry had increased volumes resulting in strong profits.

These volume increases were partially offset by lower volumes shipped from our two operations in Western Canada due to lower oil and gas drilling activity and excess inventory in the region. Trade actions on Chinese pipe imports at year end in both Canada and the U.S. are expected to help reduce inventory levels in the sector in 2008.

Gross margin as a percentage of revenues was 14.4% for 2007, a decrease from 16.5% for 2006. The lower margin mainly relates to the increased cost of goods sold resulting from higher tubing and casing prices and lower margins on the large line pipe transactions in the U.S. during 2007.

Operating expenses were higher by $4.3 million for 2007 compared to 2006, due to higher delivery costs related to our U.S. operations and higher employee costs in our operations with higher volumes.

Operating profits were $54.5 million for 2007 compared to $62.2 million for 2006. The decrease in operating profits was due to both lower margins and higher expenses.

d) Energy tubular products segment results – 2006 compared to 2005

Revenues increased 3% to $614.3 million for 2006 compared to 2005. The increase in revenues was related to strong volumes sold to the oil and gas drilling industry in both Western Canada and the western United States. The second and third quarter of 2005 had significant revenues related to infrastructure build for the oil sands of northern Alberta that was not present in 2006.

Gross margin as a percentage of revenue was 16.5% for 2006, an increase from 14.6% for 2005. This improved margin was generated by higher margins on tubular products in short supply. The 2006 results include a smaller portion of lower margin energy project revenues, resulting in a higher gross margin as a percentage of revenues. Gross margin dollars increased 16% in 2006 mainly related to higher volumes.

Operating expenses were higher by $5.9 million for 2006 compared to 2005 due to higher delivery costs related to volume increases and variable compensation related to higher profitability.

Operating profits increased by $8.2 million, or 15%, to $62.2 million for 2006, compared to 2005. This increase in operating profits was driven by higher volumes and gross margins.

Steel Distributors

a) *Description of operations*

Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation processes some coil for its customer base at its cut-to-length facility in Houston, Texas. Our steel distributors source their steel both domestically and off shore. The international sourcing provides our other business segments with valuable insight regarding international pricing trends and their potential impact on steel markets in North America.

The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing. The operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coils.

b) *Factors affecting results*

The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted 2007, 2006 and 2005 is found in the sections that follow.

Steel pricing is influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability. The weakening of the U.S. dollar against other world currencies has increased the price of import material.

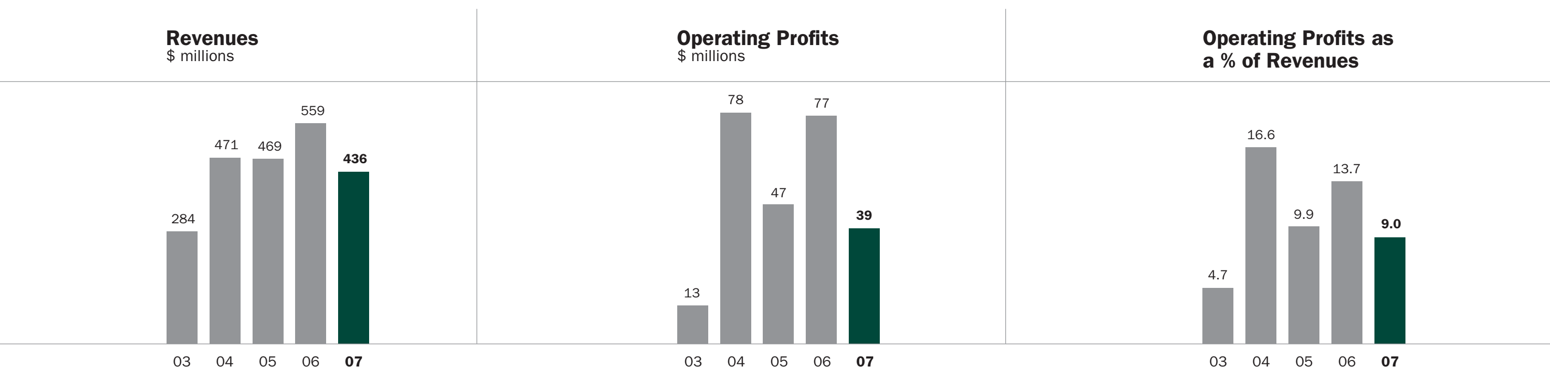
Demand for steel that is sourced off shore fluctuates significantly, mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period. Demand has declined due to overstock of inventory at service centers and lower demand by the customers of the service center sector. In addition, pricing for off shore product is currently higher due to demand outside North America and increased transportation costs, which means import product is not competitively priced compared to domestic product.

Movement in the U.S. dollar has had some effect on our Canadian steel distributor operations since inventory is purchased mainly in U.S. dollars. Steel is predominantly transacted in U.S. dollars and the Canadian mills adjust the price accordingly. The strengthening of the Canadian dollar during the last half of 2007 put pressure on selling prices and margins.

c) *Steel distributors segment results – 2007 compared to 2006*

Steel distributors revenues decreased 22% to $436.1 million for 2007 compared to 2006. Lower volumes accounted for most of the decrease in revenues; however, selling prices have declined in Canada with the weakening of the U.S. dollar. Volumes were lower due to decreased demand for steel at both our Canadian and U.S. operations caused by excess inventory in the service center industry and strong international pricing which resulted in material flowing to areas outside North America. Approximately 2% of the decline in revenues related to lower exchange rates on our U.S. steel distributor operations converted to Canadian dollars for reporting purposes.

Steel Distributors



Gross margin as a percentage of revenues of 13.5% for 2007 declined from 18.3% for 2006. The decline is due to pressure on pricing caused by reduced steel demand in 2007 and the strengthening Canadian dollar putting pressure on selling prices in Canada as current purchases are at lower prices because inventory is mainly purchased in U.S. dollars.

Operating expenses were $5.8 million lower for 2007 compared to 2006, mainly related to variable compensation being lower based on profitability in the year and income from a foreign exchange gain related to embedded derivatives on purchases outside North America by the Canadian steel distributors operation. The new financial instruments accounting standard we adopted January 1, 2007, considers transactions between a buyer and a seller in a currency that is not the functional currency of either party to be a foreign currency derivative. This requires us to calculate a foreign currency gain or loss upon adoption of the standard and for each reporting period thereafter. Upon transition, a foreign currency loss was charged to retained earnings on open purchase orders at the transition date. A portion of the foreign exchange gain in the year was a reversal of this transitional adjustment, recorded as part of inventory cost as the goods were received.

Volatility in world exchange rates could cause the foreign currency gain or loss to vary materially from reporting period to reporting period. The amounts recorded in operating expenses in future periods will reverse and be recorded to inventory costs when the material is received.

Operating profits for 2007 were $39.1 million, which is $37.6 million lower than those of 2006, mainly related to lower volumes and gross margins.

d) Steel distributors segment results – 2006 compared to 2005

Steel distributors revenues increased 19% to $559.4 million for 2006 compared to 2005. Higher volumes accounted for most of the increase in revenues. Volumes were significantly higher due to strong demand for steel.

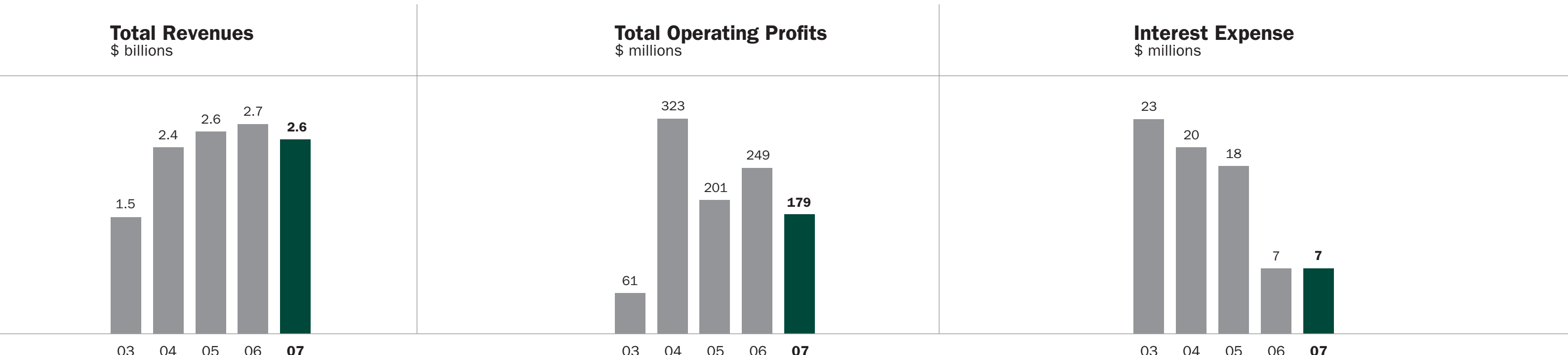
Gross margin as a percentage of revenues of 18.3% for 2006 was higher than the 14.3% for 2005 due to strong demand for our products resulting in higher metal pricing in 2006.

Operating expenses were $5.1 million higher for 2006 compared to 2005, mainly due to variable compensation related to higher profitability.

Operating profits for 2006 were $76.7 million, which is $30.1 million higher than 2005, generated by higher volumes and selling prices.

Corporate Expenses – 2007 Compared to 2006 and 2005

Corporate expenses increased $1.8 million for 2007 and $1.4 million for 2006 compared to 2005, primarily due to higher stock-based compensation expense. The expense related to stock options issued has increased due to the higher stock price and also due to EIC-162, adopted in 2006, which required us to recognize immediately or accelerate any expense related to options issued to employees who are eligible to retire during the vesting period.



Other – 2007 Compared to 2006 and 2005

Other revenues and income represent the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for 2007 compared to 2006 have improved primarily related to higher volumes handled in 2007 and the absence of severance costs relating to downsizing recorded in the first quarter of 2006.

Consolidated Results – 2007 Compared to 2006 and 2005

Operating profits from operations before other costs or income for 2007 were $179.3 million compared to $249.0 million in 2006 and $201.4 million in 2005. Lower volumes in the metals service centers and steel distributors segments account for most of this decline. Weaker margins in 2007 resulted in operating earnings for each of our three segments being lower than the results for the same period in 2006.

Interest Expense

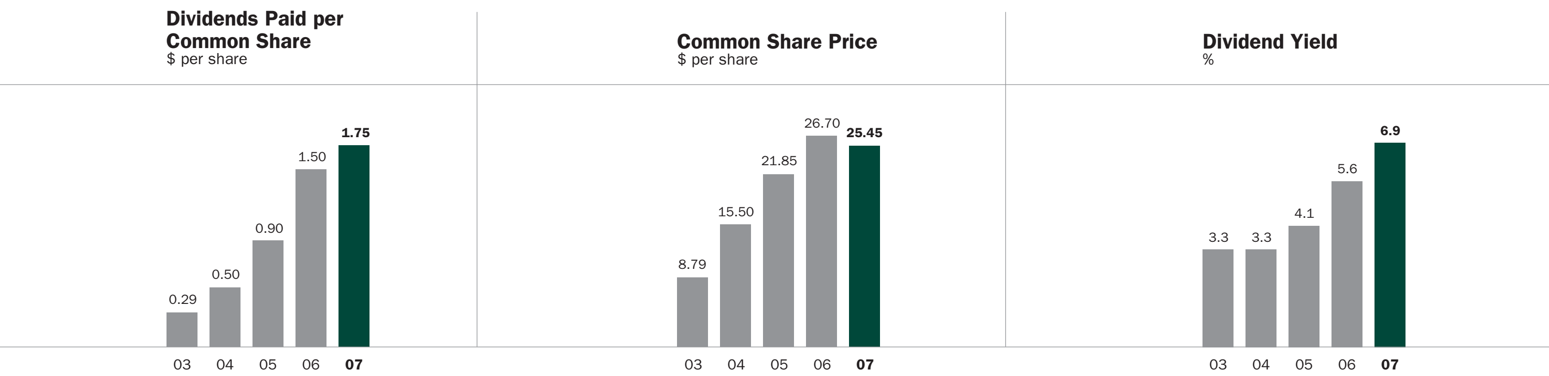
The following table shows the components of our interest expense:

(millions)	**2007**	2006	2005
Interest on long-term debt	**$ 15.3**	$ 14.8	$ 15.2
Other interest (net)	**(8.2)**	(8.1)	2.3
Total interest	**$ 7.1**	$ 6.7	$ 17.5

Consolidated interest expense for 2007 increased by $0.4 million to $7.1 million compared to 2006. We have had cash on hand and, correspondingly, interest income since March 2006 when we issued 11 million common shares. Interest income for 2007 was similar to 2006 as the reduction in cash related to the acquisition of JMS Metal Services at September 28, 2007 was offset by a reduction in working capital in the fourth quarter of 2007.

Unrealized Loss on Investment

Prior to August 23, 2007, a portion of our cash and cash equivalents was held in non-bank Canadian asset-backed commercial paper. On August 23, 2007, we were notified that the principal of $11.0 million was not able to be repaid due to a disruption in the Canadian market for asset-backed commercial paper. The Montreal Group, representing banks, asset-backed commercial paper providers and major investors, requested that we, along with other participants, agree to a standstill agreement. At this point, the details of the trust we have invested in have not been disclosed. As required by GAAP, we have made a fair value determination of this investment which is classified as held-for-trading. As no active market exists for this investment, we used a probability-weighted valuation technique to obtain a fair value. This technique considers the time value of money and the credit risk associated with the investment. We used the following assumptions in our valuation: the trust is a going concern, the senior notes will be AAA rated and the notes will be interest bearing; however, interest received will be net of restructuring costs and standby fees on the margin facility. Based on our assumptions, a write-down of $1.1 million was recorded and the asset was reclassified to other assets on our balance sheet. As we have substantial cash and available credit, this had no material impact on our liquidity.



Ineffectiveness on Cash Flow Hedges

As required under the standard for financial instruments and hedges, we evaluated the effectiveness of our swaps which hedge our U.S. Senior Notes. Due to the significant movement in the Canadian dollar versus the U.S. dollar and the reduction in the U.S. prime rate for interest, we determined that a portion of our hedge was ineffective and a loss of $0.9 million was recorded. In addition, the value of our call option related to the Senior Notes was reduced resulting in a loss of $0.5 million.

Restructuring

In May 2006, we sold our Milton, Ontario facility, which was closed during 2005. The gain on sale before income taxes was approximately $1.2 million.

Income Taxes

Our provision for income taxes for 2007 was $60.1 million, which was $24.7 million lower than that of 2006, related to lower earnings. Our income tax rate for 2007 was 35.4%. This is slightly higher than our normalized effective income tax rate for 2007, as the rate was increased by non-deductible expenses related to stock options issued in the second quarter of 2007. The rate was favourably impacted by a Canadian Federal tax rate reduction enacted in the fourth quarter of 2007, which reduced our future tax liabilities by approximately $0.5 million resulting in lower tax expense. We estimate our normalized effective income tax rate to be 34.0% for 2008, which reflects the tax budget changes enacted in 2007.

For 2006, the income tax rate was 34.8%. Our income tax rate for 2006 was favourably impacted, as we were able to utilize unrecorded capital losses against a one-time capital gain on the sale of our Milton facility, resulting in lower income tax expense on the transaction. During the second quarter of 2006, the Canadian Federal budget, which proposed rate reductions in 2008 to 2010, was enacted. This change reduced our future tax liabilities by approximately $0.4 million resulting in lower income tax expense in 2006. Our income tax rate was negatively impacted by non-deductible expenses related to stock options issued in the first and second quarters of 2006.

Discontinued Operations

During the fourth quarter of 2007, an outstanding legal issue related to the U.S. operations acquired with the Acier Leroux acquisition was settled in our favour. An unused provision of $1.6 million related to this matter was recorded as income from discontinued operations in 2007.

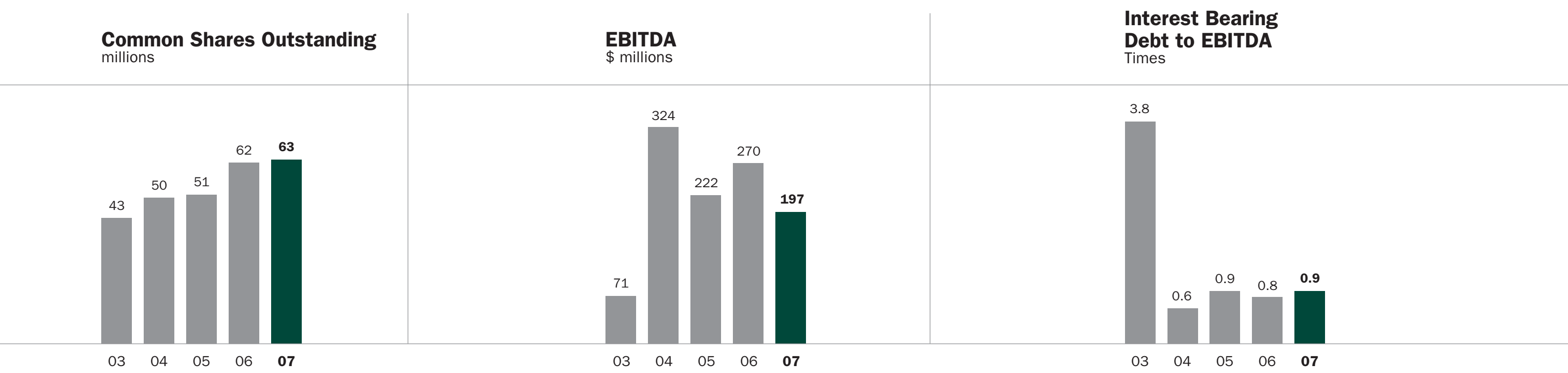
Earnings

Earnings from continuing operations for 2007 were $109.6 million compared to $158.7 million for 2006.

Net earnings for 2007 were $111.2 million compared to $158.7 million for 2006. Basic earnings per common share for 2007 were $1.77 compared to $2.65 in 2006.

Shares Outstanding and Dividends

The weighted average number of common shares outstanding for 2007 was 62,835,303 compared to 59,887,382 for 2006 and 50,461,330 for 2005. The increase related to the 11 million common shares issued in March 2006 under a public offering and employee stock options exercised. As at December 31, 2007 and February 18, 2008 we had 63,066,092 common shares outstanding.



We have returned a portion of our earnings to our shareholders by paying common share dividends of $110.1 million in 2007, $89.4 million in 2006 and $45.4 million in 2005. The increase relates to additional shares outstanding and our increased dividend rate. We paid a cash dividend of $1.75 per share for 2007, $1.50 per share for 2006 and $0.90 per share for 2005.

Our U.S. Senior Notes indenture provides that any dividend payment in excess of $0.08 per common share per quarter is considered a restricted payment. We currently have a basket of approximately $405 million available for restricted payments. The basket is replenished by 50% of net earnings on a quarterly basis. Share buybacks deplete the basket and proceeds for shares issued increase the basket.

EBITDA

The following table shows the reconciliation of GAAP earnings from continuing operations to EBITDA:

(millions)		**2007**		2006		2005
Earnings from continuing operations	**$**	**109.6**	$	158.7	$	124.6
Provision for income taxes		**60.1**		84.8		60.4
Interest expense, net		**7.1**		6.7		17.5
Earnings before interest and income taxes (EBIT)		**176.8**		250.2		202.5
Depreciation and amortization		**20.4**		20.0		19.2
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$**	**197.2**	$	270.2	$	221.7

We believe that EBITDA may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded in determining EBITDA are significant in assessing our operating results and liquidity. Therefore, EBITDA should not be considered in isolation or as an alternative to cash from operating activities or other combined income or cash flow data prepared in accordance with GAAP.

Capital Expenditures

Capital expenditures were $16.6 million for 2007 compared to $27.6 million for 2006. During 2006 and the first half of 2007, we were expanding some of our locations and adding laser burning equipment to certain of our metals service center operations. In the second half of 2007, we delayed planned additional expansions in Western Canada as volumes have declined and construction costs have increased above our original budget.

Capital expenditures mainly relate to the replacement of capital items, the purchase of additional processing equipment across a broad base of our operations and upgrades to our existing facilities and computer systems. Our expectation is for capital expenditures to be at levels higher than depreciation expense over a period of years for the expansion of product lines and processing capabilities.

Depreciation expense was $19.5 million in 2007 and $18.4 million in 2006. The increase mainly relates to additional assets acquired with JMS Metal Services.

Liquidity

On September 28, 2007, we utilized $114 million of cash and assumed debt of $7 million to acquire the JMS Metal Services group of companies. At December 31, 2007, we had cash and cash equivalents of $181.8 million.

We stress working capital management to ensure that working capital is minimized and leverage reduced over the economic cycle. Our metals distribution business experiences significant swings in cash flow in order to fund working capital. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. At December 31, 2007, current assets represented 79% of our total assets versus 85% at December 31, 2006. The decline in current assets mainly relates to the cash utilized to acquire fixed assets, intangibles and goodwill of JMS Metal Services. Total assets were $1.4 billion at December 31, 2006 and at December 31, 2007.

The balances disclosed in our consolidated cash flow statements are adjusted to remove the non-cash component related to foreign exchange rate fluctuations impacting inventory, accounts receivable, accounts payable and income tax balances of our U.S. operations.

Inventory turns improved in 2007 compared to 2006 in all segments. Reductions in inventory balances generated cash of $89.1 million in 2007, excluding the reduction related to foreign exchange on inventories held in the U.S. and inventories related to the JMS Metal Services acquisition. All segments are reducing inventories to levels required to service current volumes. We intend to continue to reduce inventory levels in our energy tubular products segment over the next several quarters. Our goal is to ensure that we keep our inventory levels as low as possible in order to minimize inventory valuation risk while still satisfying the needs of our customers.

Inventory turns are calculated using our cost of sales for the quarter annualized, divided by our inventory position at the end of the quarter.

Inventory Turns

					Quarter Ended
	Dec. 31 2007	**Sept. 30 2007**	**June 30 2007**	**Mar. 31 2007**	Dec. 31 2006
Metals service centers	**4.4**	**4.2**	**4.0**	**3.9**	3.8
Energy tubular products	**2.6**	**3.0**	**2.4**	**2.7**	2.3
Steel distributors	**3.1**	**3.8**	**3.3**	**4.5**	2.2
Total operations	**3.5**	**3.7**	**3.3**	**3.6**	2.9

Metals service centers reduced inventory during the third and fourth quarters of 2007 compared to the prior quarters in 2007; however, a similar decline in cost of sales resulted in only a slight improvement in turns. We expect our metals service centers operations to turn over their inventory at higher rates than the industry average. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns for U.S. based steel companies for the three months ended December 31, 2007 was 3.9 turns and the average for Canadian based companies was 3.0 turns.

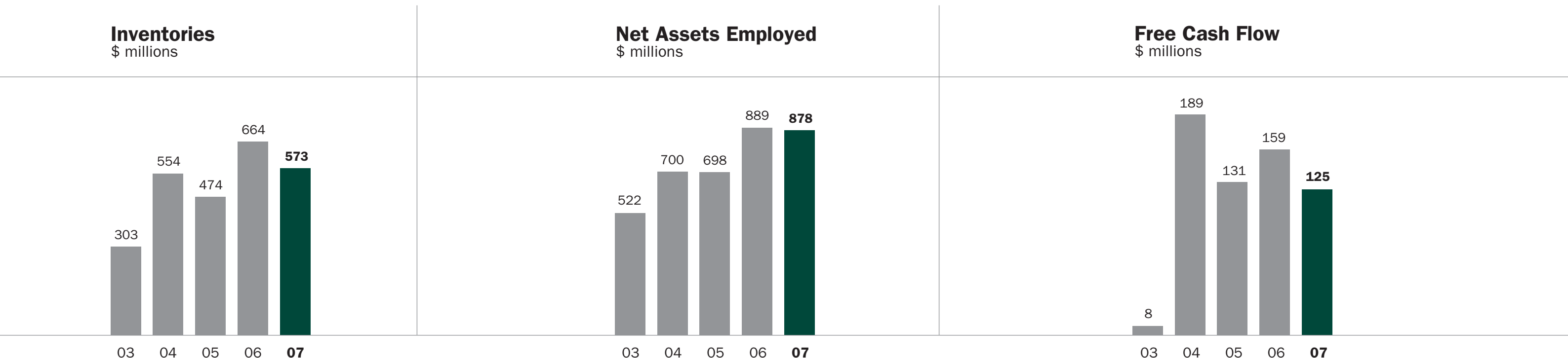
Our energy tubular products segment has reduced inventory levels since December 31, 2006. Inventory needs to be further reduced to align with current volumes.

The improvement in turns in our steel distributors segment relates to lower inventories during 2007 compared to 2006; however, lower sales in the fourth quarter of 2007 impacted turns. In addition, the Canadian operations have increased inventory in the fourth quarter due to the close of navigation on the Great Lakes and we anticipate levels to decline in the first quarter of 2008 based on historical patterns.

The other major components of working capital are accounts receivable and accounts payable. Excluding the acquisition of JMS Metal Services, accounts receivable and accounts payable at December 31, 2007 are approximately the same as December 31, 2006. Also, revenues for the fourth quarter of 2007 are similar to revenues for the fourth quarter of 2006.

During 2007, we made income tax payments of $75.7 million compared to payments of $71.0 million in 2006 and $110.4 million in 2005.

During 2007, we utilized cash of $16.6 million on capital expenditures and $110.1 million on common share dividends. During 2006, we utilized cash of $27.6 million on capital expenditures and $89.4 million on common share dividends.



Free Cash Flow

(millions)		**2007**		2006		2005
Cash from operating activities before working capital	**$**	**140.4**	$	178.5	$	149.6
Purchase of fixed assets		**(16.6)**		(27.6)		(26.5)
Proceeds on sale of fixed assets		**1.5**		1.7		1.6
Proceeds from assets held for sale and sale of businesses		**–**		6.2		5.9
	$	**125.3**	$	158.8	$	130.6

Free cash flow may be useful in assessing our ability to pay dividends, reduce outstanding debt and fund working capital growth. Free cash flow is a non-GAAP measure regularly used by investors and analysts to evaluate companies.

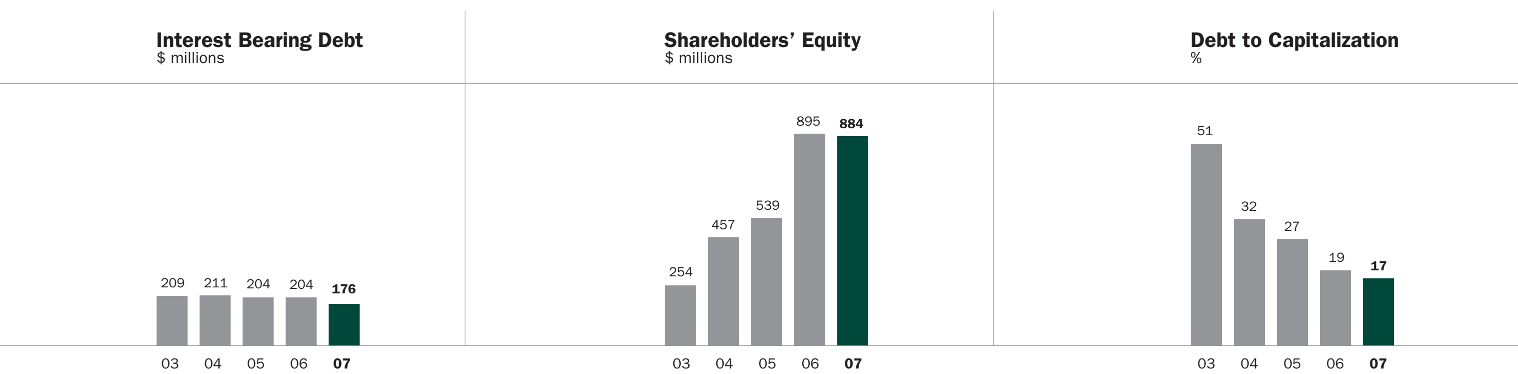
Cash, Debt and Credit Facilities

At December 31, 2007, we had cash and cash equivalents, net of outstanding cheques, of $181.8 million. In March 2006, we issued 11 million common shares for net proceeds of $271.4 million resulting in cash, which has been invested in short-term investments until a suitable acquisition or other use of cash occurs. On September 28, 2007, $114 million of cash was used to acquire the JMS Metal Services group of companies. In addition, we assumed development bonds of $7 million.

The application of the new accounting standards related to Financial Instruments and Hedges (see section on Changes in Accounting Policies) requires all derivatives to be recorded at their fair values and the deferred costs to be netted against the applicable liability. In accordance with this standard, the Senior Notes are recorded net of deferred financing charges at December 31, 2007. At December 31, 2006 deferred financing charges were recorded in assets. The following table details the changes related to long-term debt:

(millions)		**Amortized Cost or Fair Value as at December 31, 2007**		Balance as at December 31, 2006
Long-term debt				
6.375% US$175 million Senior Notes due March 1, 2014	**$**	**169.0**	$	203.9
Capital leases				
Arkansas development bonds, maturing 2014 to 2017		**6.8**		–
		175.8		203.9
Current portion		**0.9**		–
	$	**174.9**	$	203.9
Obligations under cross currency swaps				
Foreign exchange difference on US$100 million (recorded as Other accrued liabilities at December 31, 2006)	**$**	**33.0**	$	15.4
Additional fair value of cash flows to terminate swap (not recorded on balance sheet in 2006)		**6.5**		–
	$	**39.5**	$	15.4

Changes in the value of the debt and the swaps are recorded in other comprehensive income net of income taxes.



Cash and Bank Credit Facilities

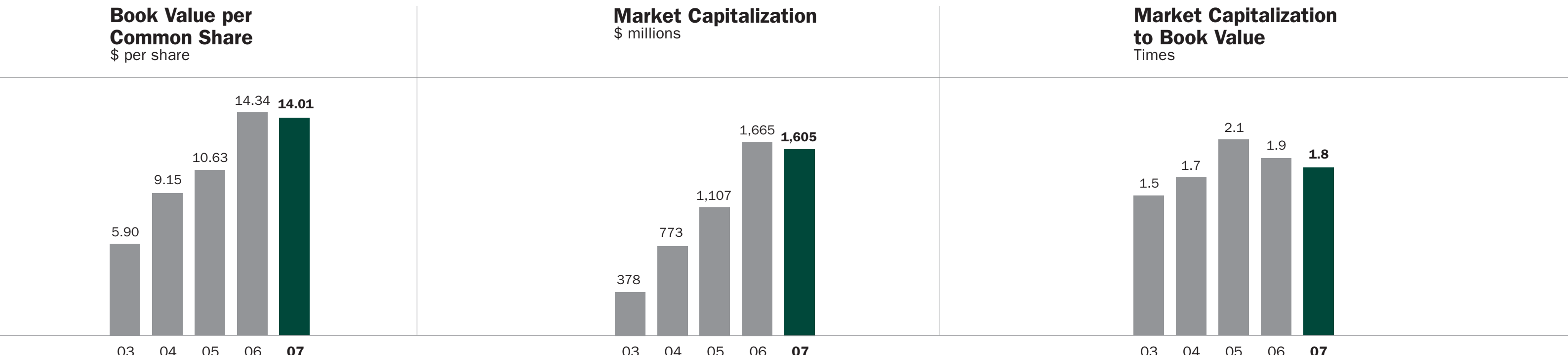
As at December 31, 2007 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ –	$ –	$ –
Cash net of outstanding cheques	**168.2**	**13.6**	**181.8**
Cash	**168.2**	**13.6**	**181.8**
Facilities availability	**200.0**	**49.4**	**249.4**
Letters of credit	**13.6**	**14.5**	**28.1**
Undrawn facilities	**186.4**	**34.9**	**221.3**
Total cash and undrawn facilities	**$ 354.6**	**$ 48.5**	**$ 403.1**

We have a facility with a syndicate of Canadian and U.S. banks for a revolving loan of $200 million, including letters of credit. This facility was extended to January 15, 2011 in December 2007. We may extend this facility annually with the consent of the syndicate. We are entitled to borrow, on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of $200 million. We are currently entitled to borrow $200 million including letters of credit under this facility. At December 31, 2007, we had no borrowings and had letters of credit of $13.6 million. At December 31, 2006, we had no borrowings and had letters of credit of $54.8 million under this facility.

In addition, a U.S. subsidiary has its own one-year bank credit facility. The maximum borrowing under this facility at December 31, 2007 was US$50 million. At December 31, 2007, this subsidiary had no borrowings and had letters of credit of US$14.6 million. At December 31, 2006, this subsidiary had no borrowings and had letters of credit of US$36.1 million.

Cash generated from operating activities before working capital changes was $140.4 million for 2007 and was $178.5 million for 2006 due to lower earnings in 2007.

Based on cash, cash equivalents and our bank facilities, we have access to approximately $403 million of cash availability based on our December 31, 2007 balances. In the past, we have made several acquisitions and we believe we can continue to grow by acquisition. We believe we have the ability to fund future acquisitions using cash or through the utilization or expansion of our existing bank facilities. We believe we have the ability to significantly increase the bank facility, if required.



Contractual Obligations

As at December 31, 2007, we were contractually obligated to make payments under our long-term debt agreement, cross currency swap agreements and operating lease obligations that come due during the following periods.

(millions)	Long-Term Debt Maturities	Cross Currency Swaps	Long-Term Debt Interest	Lease Obligations	Total
2008	$ 0.9	$ –	$ 14.6	$ 11.2	$ 26.7
2009	1.0	–	14.5	10.4	25.9
2010	1.0	–	14.5	9.5	25.0
2011	1.1	–	14.4	7.5	23.0
2012	1.1	–	14.4	6.1	21.6
2013 and beyond	175.2	33.0	16.8	9.8	234.8
Total	$ 180.3	$ 33.0	$ 89.2	$ 54.5	$ 357.0

The long-term debt interest in the table includes the impact of our swaps. Long-term debt interest has been estimated based on current exchange rates for the portion not hedged.

Derivatives

Our fixed interest cross currency swaps obligate us to purchase US$100 million at $1.3180 for each US$1.00. Based on the December 31, 2007 exchange rate, we would incur an obligation of $33.0 million in addition to our long-term debt obligation of $172.9 million. The fair value of our swaps includes an additional obligation of $6.5 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at December 31, 2007.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and operating lease obligations disclosed in the contractual obligations table.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 17 to our 2007 annual consolidated financial statements. During 2007, we contributed $4.3 million to these plans. We expect to contribute approximately $2.7 million to these plans during 2008.

Accounting Policies and Estimates

a) Change in Accounting Policies in 2007

Effective January 1, 2007, as required by Canadian accounting standards, we adopted new accounting standards – Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income. The principal impacts of the standards are:

(i) Other comprehensive income is a new component of shareholders' equity and a new statement entitled Statement of Comprehensive Income has been added to our consolidated financial statements.

(ii) Financial assets and liabilities are classified as available-for-sale, held-to-maturity, held-for-trading, other liabilities or loans and receivables.

(iii) Items classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Assets classified as available-for-sale are measured at fair value with gains and losses recognized in other comprehensive income until the item is sold. Other loans and receivables and other liabilities are measured at amortized cost using the effective interest method.

(iv) Derivative instruments including hedges are recorded on the balance sheet at fair value.

(v) This new hedging standard replaces our previous policy and the swaps which hedge our Senior Notes are recorded at fair value on the balance sheet with any gains or losses recorded in other comprehensive income until the hedged items are recognized in the consolidated statement of income.

Our held-for-trading assets include short-term investments, bank accounts, forward exchange contracts and embedded derivatives in inventory purchases. We currently do not have any assets classified as available-for-sale or held-to-maturity. Our accounts receivable are classified under loans and receivables, and accounts payable and long-term debt are classified as other financial liabilities.

The impact on our financial statements is that changes in foreign exchange related to certain open purchase orders and forward exchange contracts have been reported in operating expenses for 2007. As metal is transacted mainly in U.S dollars worldwide, the majority of the entries relate to U.S. versus Canadian dollar movements on U.S. dollar purchase orders with non North American suppliers. These derivatives have been fair valued at December 31, 2007 and January 1, 2007 and changes are reported in income for 2007. The net impact of these items in 2007 totalled $1.3 million of income and has been reported in the operating profits of the operating segments where the contracts exist. Any transitional adjustment related to the January 1, 2007 fair value of like items has been included in retained earnings.

In addition, our long-term debt and the related swaps are recorded at amortized costs or fair values on the balance sheet. See details under Cash, Debt and Credit Facilities.

b) Future Accounting and Reporting Changes

Effective January 1, 2008, we are adopting the Canadian accounting standards new section on Inventories. This section gives specific guidance on costing of inventories and presentation of expense allocation between cost of goods sold and operating expenses.

We, along with other distributors in our industry, have not used absorption accounting for allocation of certain plant costs between cost of sales and operating expenses for processing activities. Effective January 1, 2008, we will use absorption accounting for our processing activities. This will result in an increase in cost of sales and a decrease in gross margin dollars and operating expenses of a similar number.

In addition, the new standard requires a net realizable value test for inventory on hand at the item level. Consistent with previous practice we will write down inventories when the net realizable value is less than cost. The new standard requires us to write up values to original cost if the net realizable value has increased in the period. We anticipate more volatility in our numbers due to this change in a declining market, as metals pricing tends to fluctuate with demand and with mill costs that we do not control.

c) Accounting Estimates

The preparation of our financial statements requires management to make estimates and judgements that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory obsolescence, useful lives of fixed assets, asset retirement obligations, income taxes, restructuring costs, pensions and other post-retirement benefits, fair values, guarantees, environmental obligations, contingencies, litigation and assigned values on net assets acquired. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Our most significant assets are accounts receivable and inventory.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable that we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at December 31, 2007 is consistent with the level at December 31, 2006.

Inventories

We review our inventory to ensure that the cost of inventory is not in excess of its estimated market value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the market value and when product is determined to be slow moving or obsolete. Significant reductions in market value could result in additional write-downs. The inventory reserve level at December 31, 2007 is reduced from the level at December 31, 2006 based on net realizable values at December 31, 2007.

Other areas involving significant estimates and judgements include:

Income Taxes

We believe that we have adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases requires significant judgement in interpreting tax rules and regulations, which are constantly changing. Our tax filings are also subject to audits, which could materially change the amount of current and future income tax assets and liabilities. Any change would be recorded as a charge to or reduction in income tax expense.

Employee Benefit Plans

We perform a valuation, at least every three years, for each plan to determine the actuarial present value of the accrued pension and other retirement benefits. The valuation uses management's assumptions for the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, health-care cost trend rates and expected average remaining years of service of employees.

While we believe that these assumptions are reasonable, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plans costs. We account for differences between actual and assumed results by recognizing differences in benefit obligations and plan performance over the working lives of the employees who benefit from the plans.

Investment in Asset-Backed Commercial Paper

We have excess cash which is currently being invested on a short-term basis. Prior to August 2007, our investment policy allowed for investments in non-bank and bank asset-backed commercial paper. The policy limits the amounts invested by asset type and issuer.

We performed a probability-weighted valuation technique to obtain a fair value for this asset. While we believe our assumptions are reasonable based on available information, the actual recovery on this investment could be materially different and our valuation may change in future periods as more information becomes available.

Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The purpose of internal controls over financial reporting as defined by the Canadian Securities Administrators is to provide reasonable assurance that:

- (i) financial statements prepared for external purposes are in accordance with the Company's Generally Accepted Accounting Principles,
- (ii) transactions are recorded as necessary to permit the preparation of financial statements, and records are maintained in reasonable detail,
- (iii) receipts and expenditures of the Company are made only in accordance with authorizations of the Company's management and directors, and
- (iv) unauthorized acquisitions, uses or dispositions of the Company's assets that could have a material effect on the financial statements will be prevented or detected in order to prevent material error in financial statements.

The President and Chief Executive Officer, and the Vice President and Chief Financial Officer have caused management and other employees to design and document our internal controls over financial reporting. No material weaknesses in the design effectiveness were identified during the documentation of these internal controls.

No changes were made in our disclosure controls or our internal control over financial reporting during 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Vision and Strategy

The metals distribution business is a segment of a mature, cyclical industry. The use of service centers and steel distributors by both manufacturers and end users of steel continues to grow. This is evidenced by the growth in the percentage of total steel shipments from steel producers to service centers. As the distribution segment's share of steel industry shipments continues to grow, service centers such as ours can grow their business over the course of a cycle.

We strive to deal with the cyclical nature of the business by operating with the lowest possible net assets throughout the course of a cycle. In order to achieve this, management emphasizes profitability rather than revenue growth. This intensive asset management reduces borrowings and therefore interest expense in declining periods in the economic cycle. This in turn creates higher, more stable returns on net assets over the course of the cycle. Our conservative management approach creates relatively stronger trough earnings but could cause potential peak earnings to be somewhat muted. Management strongly believes that it is more prudent to be profitable throughout a cycle, without the spikes in earnings caused by less emphasis on asset management, and have average earnings over the full range of the cycle in the top deciles of the industry.

Growth from selective acquisitions is also a core strategy. We focus on investment opportunities in businesses that have strong market niches or provide mass to our existing operations. We believe that our acquisition of JMS Metal Services in September 2007 provides a platform for growth in the Southeastern and Midwestern regions of the United States.

In both the energy tubular products and steel distributors segments, all of the business units have significant operations in the market niche that they service. Consistent with our acquisition philosophy, any new acquisitions in these areas would likely be either major stand-alone operations or those that complement our existing operations.

In the future, we believe that the length of the steel-based economic cycle will continue to shorten and a management structure and philosophy that allows the fastest reaction to changes that affect the industry will be the most successful. We will continue to invest in business systems to enable faster reaction times to changing business conditions. In addition, management believes the high level of service and flexibility provided by service centers will enable this distribution channel to capture an increasing percentage of total steel revenues to end users, allowing for increased growth within the sector.

Risk

The timing and extent of future price changes from the steel producers and their impact on us can not be predicted with any certainty due to the inherent cyclical nature of the steel industry.

Fourth Quarter Results

Revenues for the fourth quarter of 2007 compared to the fourth quarter of 2006 were down 4% when the revenues of JMS Russel Metals are excluded. The energy tubular products segment had higher volumes whereas the steel distributors volumes have declined. The earnings are lower mainly due to lower selling prices resulting in lower margins. Our earnings per share were $0.40 for the fourth quarter of 2007 compared to that reported for the fourth quarter of 2006 of $0.49.

Outlook

We are starting to see revenue improvement and margin enhancement due to price increases. With the unsettled outlook for the North American economy, we cannot forecast past the first quarter of 2008 at this time; however, we anticipate continuing enhancement of our margins in the first quarter in line with price increases announced by the North American steel mills which will provide higher margins on our existing inventories. Furthermore, JMS Russel Metals operations, acquired at the end of the third quarter in 2007, are expected to provide additional accretion on a comparative basis versus the first three quarters in 2007.

Subsequent Event

On February 18, 2008, the Board approved the filing of a normal course issuer bid, which will allow us to purchase up to six million of our common shares. Our share price has recently traded at prices which we believe do not truly reflect the value of the Company. The purchase of six million shares will not jeopardize our ability to pay our dividend.

February 18, 2008

> management's report to the shareholders

The accompanying consolidated financial statements, management's discussion and analysis and all information in the Annual Report have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements and management's discussion and analysis within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company has developed, documented and maintained a system of internal controls in order to provide reasonable assurance that its assets are safeguarded; that only valid and authorized transactions are executed; and that accurate, timely and comprehensive financial information is prepared in accordance with Canadian generally accepted accounting principles. In addition, the Company has developed and maintained a system of disclosure controls in order to provide reasonable assurance that the financial information is relevant, reliable and accurate. The Company has evaluated its disclosure controls for the year ended December 31, 2007, and has concluded that they are effective.

The Company's Audit Committee is appointed annually by the Board of Directors. The Audit Committee, which is composed entirely of outside directors, meets with management to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements, the management's discussion and analysis and the report to shareholders. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements, the management's discussion and analysis and the report to shareholders for presentation to the shareholders.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors Deloitte & Touche LLP in accordance with Canadian generally accepted auditing standards. Deloitte & Touche LLP has full and free access to the Audit Committee.

February 18, 2008

E.M. Siegel, Jr.
President and
Chief Executive Officer

M.E. Britton
Vice President and
Chief Financial Officer

> auditors' report

To the Shareholders of Russel Metals Inc.

We have audited the consolidated balance sheets of Russel Metals Inc. as at December 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 2007. 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 in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
February 18, 2008

At December 31 (millions)		2007		2006
ASSETS				
Current				
Cash and cash equivalents	**$**	**181.8**	$	209.9
Accounts receivable		**341.8**		329.0
Inventories		**572.6**		664.0
Prepaid expenses and other assets		**8.5**		7.4
Income taxes		**3.9**		2.1
		1,108.6		1,212.4
Property, Plant and Equipment (Note 7)		**227.9**		189.5
Deferred Financing Charges		**0.3**		6.8
Future Income Tax Assets (Note 13)		**1.0**		0.4
Other Assets (Note 8)		**12.1**		3.9
Goodwill and Intangibles (Note 5)		**53.4**		9.2
	$	**1,403.3**	$	1,422.2
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**$**	**294.2**	$	283.9
Income taxes payable		**2.8**		15.0
Current portion long-term debt		**0.9**		–
		297.9		298.9
Other Accrued Liabilities (Note 15)		**–**		15.4
Derivatives (Note 15)		**39.5**		–
Long-Term Debt (Note 10)		**174.9**		203.9
Pensions and Benefits (Note 17 b))		**1.4**		2.6
Future Income Tax Liabilities (Note 13)		**5.8**		6.8
		519.5		527.6
Shareholders' Equity (Note 14)		**883.8**		894.6
	$	**1,403.3**	$	1,422.2

On behalf of the Board,

A. Benedetti
Director

L. Lachapelle
Director

The accompanying notes are an integral part of these consolidated financial statements.

> consolidated statements of earnings

For the years ended December 31 (millions, except per share data)	**2007**	2006	2005
Revenues	**$ 2,559.2**	$ 2,692.1	$ 2,614.1
Cost of sales and operating expenses	**2,379.9**	2,443.1	2,412.7
Earnings before the following	**179.3**	249.0	201.4
Other expense (income) (Note 11)	**2.5**	(1.2)	(1.1)
Interest expense, net (Note 12)	**7.1**	6.7	17.5
Earnings before income taxes	**169.7**	243.5	185.0
Provision for income taxes (Note 13)	**(60.1)**	(84.8)	(60.4)
Earnings from continuing operations	**109.6**	158.7	124.6
Income (loss) from discontinued operations (Note 6)	**1.6**	–	(0.1)
Net earnings for the year	**$ 111.2**	$ 158.7	$ 124.5
Basic earnings per common share – continuing operations (Note 14)	**$ 1.74**	$ 2.65	$ 2.47
Basic earnings per common share	**$ 1.77**	$ 2.65	$ 2.47
Diluted earnings per common share – continuing operations	**$ 1.73**	$ 2.63	$ 2.44
Diluted earnings per common share	**$ 1.76**	$ 2.63	$ 2.44

> consolidated statements of retained earnings

For the years ended December 31 (millions)	**2007**	2006	2005
Retained earnings, beginning of the year, as previously reported	**$ 411.1**	$ 341.8	$ 262.7
Transitional adjustment – financial instruments (Note 2)	**(0.5)**	–	–
Retained earnings, beginning of the year, as restated	**410.6**	341.8	262.7
Net earnings for the year	**111.2**	158.7	124.5
Dividends on common shares	**(110.1)**	(89.4)	(45.4)
Retained earnings, end of the year (Note 14)	**$ 411.7**	$ 411.1	$ 341.8

The accompanying notes are an integral part of these consolidated financial statements.

> consolidated statement of comprehensive income

For the year ended December 31 (millions)		**2007**
Net earnings for the year	**$**	**111.2**
Other comprehensive loss		
Unrealized foreign exchange losses on translating financial statements of self-sustaining foreign operations (U.S. subsidiaries)		**(34.5)**
Gains on items designated as net investment hedges (net of tax of $0.6)		**9.1**
Gains on items designated as cash flow hedges (net of tax of $3.1)		**7.6**
Other comprehensive loss		**(17.8)**
Comprehensive income	**$**	**93.4**

> consolidated statements of accumulated other comprehensive loss

For the years ended December 31 (millions)		**2007**		2006
Accumulated net unrealized foreign currency translation gains and losses				
Balance, beginning of year	**$**	**(11.2)**	$	(12.5)
Net unrealized gain (loss) on translation of net investment in foreign operations		**(34.5)**		1.3
Balance, end of year		**(45.7)**		(11.2)
Accumulated net unrealized loss on cash flow and net investment hedges				
Balance, beginning of year		**–**		–
Transitional adjustment (Note 2)		**(9.3)**		–
Unrealized gains on items designated as net investment hedges (net of tax of $0.6)		**9.1**		–
Unrealized gains on items designated as cash flow hedges (net of tax of $3.1)		**7.6**		–
Balance, end of year		**7.4**		–
Total accumulated other comprehensive loss	**$**	**(38.3)**	$	(11.2)

The accompanying notes are an integral part of these consolidated financial statements.

> consolidated cash flow statements

For the years ended December 31 (millions)	**2007**	2006	2005
Operating activities			
Earnings from continuing operations	**$ 109.6**	$ 158.7	$ 124.6
Depreciation and amortization	**20.4**	20.0	19.2
Future income taxes	**4.2**	3.9	6.3
Gain on sale of fixed assets and assets held for sale	**(0.5)**	(1.3)	(2.0)
Stock-based compensation	**4.8**	3.4	1.5
Pension expense (funding) (Note 17)	**(1.3)**	(6.2)	–
Other	**3.2**	–	–
Cash from operating activities before working capital	**140.4**	178.5	149.6
Changes in non-cash working capital items			
Accounts receivable	**(5.0)**	30.3	(2.4)
Inventories	**89.1**	(188.2)	76.5
Accounts payable and accrued liabilities	**4.7**	(30.9)	(32.2)
Current income taxes	**(17.6)**	9.2	(55.6)
Other	**(0.9)**	(0.4)	–
Change in non-cash working capital	**70.3**	(180.0)	(13.7)
Cash from (used in) operating activities	**210.7**	(1.5)	135.9
Financing activities			
Decrease in bank borrowing	**–**	(2.1)	(31.2)
Issue of common shares (Note 14)	**10.9**	277.9	4.4
Dividends on common shares	**(110.1)**	(89.4)	(45.4)
Deferred financing	**(0.2)**	(1.1)	(0.3)
Repayment of long-term debt	**(0.3)**	–	–
Cash from (used in) financing activities	**(99.7)**	185.3	(72.5)
Investing activities			
Purchase of fixed assets	**(16.6)**	(27.6)	(26.5)
Proceeds on sale of fixed assets	**1.5**	1.7	1.6
Purchase of business (Note 4)	**(109.0)**	–	–
Proceeds from assets held for sale	**–**	6.2	5.9
Reclassification of cash equivalents to other assets	**(11.0)**	–	–
Other	**1.6**	(0.9)	(4.4)
Cash used in investing activities	**(133.5)**	(20.6)	(23.4)
Cash from discontinued operations	**–**	–	6.5
Effect of exchange rates on cash	**(5.6)**	(0.4)	–
(Decrease) increase in cash and cash equivalents	**(28.1)**	162.8	46.5
Cash and cash equivalents, beginning of the year	**209.9**	47.1	0.6
Cash and cash equivalents, end of the year	**$ 181.8**	$ 209.9	$ 47.1

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

a) Basis of presentation

The consolidated financial statements include the accounts of Russel Metals Inc. and its subsidiary companies herein referred to as the Company. The reporting currency is Canadian dollars unless otherwise noted. All inter-company balances, transactions and profits have been eliminated.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

b) Cash and cash equivalents

Cash and cash equivalents includes demand deposits, bank term deposits, and investment grade short-term investments with a maturity of less than three months at time of purchase. At December 31, 2007, short-term investments were $26.4 million (2006: $132.7 million) and demand deposits were $139.9 million (2006: $67.4 million). Cash and cash equivalents are recorded at cost, which approximates market value.

c) Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on either an average cost basis or an actual cost basis depending on the business unit (Note 3).

d) Property, plant, equipment and depreciation

Property, plant, equipment and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis at rates that charge the original cost of such assets to operations over their estimated useful lives. These are 20 to 40 years for buildings, 5 to 10 years for machinery and equipment, 2 to 5 years for computer equipment, and over the lease term for leasehold improvements. Depreciation expense was $19.5 million in 2007 (2006: $18.4 million; 2005: $17.7 million).

e) Deferred financing charges and amortization

Eligible costs incurred relating to bank financing are deferred and amortized on a straight-line basis over the period of the related financing. Deferred financing charges are recorded at cost less accumulated amortization. Amortization of deferred financing charges was $0.8 million in 2007 (2006: $1.6 million; 2005: $1.5 million). Effective January 1, 2007, eligible costs related to long-term debt financing are capitalized to the carrying amount of the associated debt and amortized using the effective interest method (Note 2). Prior to January 1, 2007, deferred charges related to long-term debt financing were recorded as deferred financing charges.

f) Goodwill and intangibles

Goodwill represents the excess purchase price paid on acquisitions over the value assigned to identifiable net assets acquired. The Company reviews goodwill for impairment annually and whenever facts and circumstances indicate that carrying amounts may not be recoverable. As part of the evaluation, the estimated future undiscounted cash flows associated with the underlying business operation are compared to the carrying amount of goodwill to determine if a write-down is required. If such an assessment indicates that the undiscounted future cash flows will not be recovered, the carrying amount is reduced to the estimated fair value (Note 5).

Intangible assets are recorded at cost, which for business acquisitions represents the fair value at the date of acquisition, and are comprised of customer lists. Customer lists are amortized on a straight-line basis over their estimated useful life, 15 years. Amortization of customer lists was $0.1 million for the year ended December 31, 2007.

g) Pensions and other benefit plans

The cost of pension benefits earned by employees covered under defined benefit plans is determined using the projected benefit method prorated on service and is charged to expense as services are rendered. Actuarial gains and losses and past service costs are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups utilizing the corridor approach. The corridor approach amortizes the excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets. The cost of post-retirement benefits other than pensions is recognized on an accrual basis.

h) Income taxes

The Company uses the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial accounting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recognized to the extent that their realization is more likely than not.

i) Foreign currency translation

The accounts of self-sustaining foreign subsidiaries are translated from U.S. dollars to Canadian dollars at the noon spot rate in effect at the balance sheet date, which was 0.9881 at December 31, 2007 (2006: 1.1653). Revenues and expenses are translated at the average rate of exchange during the year. For 2007, the U.S. dollar published average exchange rate was 1.0740 (2006: 1.1343; 2005: 1.2114). The resulting gains or losses are included in other comprehensive loss (Note 2).

Exchange gains or losses on long-term debt denominated in foreign currencies not designated as a hedge are expensed as incurred. Exchange gains or losses on the translation of long-term debt denominated in a foreign currency designated as a hedge of the Company's net investment in foreign subsidiaries are included in other comprehensive loss.

j) Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, selling price is fixed and collection is reasonably assured. Revenue on certain sales within the energy tubular products segment, where the Company acts as an agent, is presented on a net basis. Freight and shipping billed to customers are included in revenue.

k) Stock-based compensation

The Company uses the fair value-based approach to account for stock-based compensation granted to employees subsequent to January 1, 2003. Compensation expense is recognized for stock options over their vesting period based on their estimated fair values on the date of grant with the related credit charged to contributed surplus except for employees who are eligible to retire during the vesting period. Fair value is determined by the Black-Scholes option-pricing model. Compensation expense is also recognized for deferred share units when issued and changes in the quoted market price from the issue date to the reporting period date are charged to compensation expense.

l) Earnings per share

Basic earnings per common share is calculated using the weighted daily average number of common shares outstanding. The weighted average number of common shares for 2007 was 62,835,303 (2006: 59,887,382; 2005: 50,461,330). Diluted earnings per share is calculated using the treasury stock method.

m) Derivative financial instruments

The Company uses foreign exchange contracts to manage foreign exchange risk on certain committed cash outflows, primarily inventory purchases. When the derivative instruments have been designated and are highly effective at offsetting risks, hedge accounting is applied. Hedge accounting requires that gains and losses on the hedge instrument are recognized through income in the same period or manner as the item being hedged. Realized and unrealized foreign exchange gains and losses not designated as a hedge are included in income. Derivatives are not entered into for speculative purposes and the use of derivative contracts is governed by documented risk management policies.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific firm commitments or forecasted transactions. The Company assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of hedged items.

n) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. In particular, inventories, accounts receivable, estimated useful lives, asset retirement obligations, fair values, pension and benefit obligations, other contingencies, and assigned values on net assets acquired represent management's best estimates. Actual results could differ from these estimates.

2. Changes in Accounting Policies

a) On January 1, 2007, the Company adopted six new accounting standards: CICA Handbook section 1506, Accounting Changes; CICA Handbook section 1530, Comprehensive Income; CICA Handbook section 3855, Financial Instruments – Recognition and Measurement; CICA Handbook section 3861, Financial Instruments – Disclosure and Presentation; CICA Handbook section 3865, Hedges; and CICA Handbook section 3251, Equity.

Certain of these new standards require the Company to classify all financial instruments resulting in certain financial instruments being valued at fair value on the balance sheet. As permitted, the Company chose January 1, 2003 as the transition date for the search for embedded derivatives. The impact of this change in accounting policy is presented as a transitional adjustment in opening retained earnings and opening accumulated other comprehensive income as appropriate. In compliance with the standards, prior periods are not restated, except for the cumulative translation adjustment which has been reclassified to accumulated other comprehensive income.

i) Comprehensive Income

This standard provides guidance on the presentation of comprehensive income, which is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income is comprised of net earnings and other comprehensive income (OCI). OCI includes certain gains and losses that are recognized outside of net earnings. The major components of the Company's OCI are the cumulative translation adjustment and the effective portion of cash flow hedges including the fixed for fixed cross currency swaps which are designated as a cash flow hedge of a portion of our U.S. Senior Notes. Our consolidated financial statements include a new Statement of Comprehensive Income. The accumulated OCI, which includes the Company's cumulative translation adjustment, is presented as a new category of Shareholders' Equity in our Consolidated Balance Sheets and the Company has disclosed its components in the Consolidated Statements of Accumulated Other Comprehensive Loss.

ii) Financial Instruments

The recognition and measurement standard provides guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives, which are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. The Company's held-for-trading assets include investments, bank accounts, forward exchange contracts and embedded derivatives in inventory purchases. The Company currently does not have any assets classified as available-for-sale or held-to-maturity. Accounts receivable are classified under loans and receivables, and accounts payable and long-term debt are classified as other financial liabilities. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities not classified as held-for-sale are measured at amortized cost using the effective interest method.

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value as Other Assets, Other Accrued Liabilities or Derivatives. Changes in fair value are recognized in net income except for derivatives designated as cash flow hedges, whose change in fair value is recognized in OCI. Fair values were determined using quoted market values for similar instruments or other third party information.

Available-for-sale financial assets are measured at fair value. Unrealized gains and losses on available-for-sale financial assets and derivatives designated as cash flow hedges are recorded through OCI.

The standard provides an accounting policy choice on the treatment of transactions costs. The Company's accounting policy is to capitalize transaction costs to the carrying amount of the associated debt and to amortize them to net interest expense using the effective interest method.

The disclosure and presentation standard provides guidance on the disclosure and presentation under the new financial instruments standards.

iii) Hedges

This standard replaces existing hedge accounting guidance in CICA Handbook section 1650, Foreign Currency Translation, and accounting guideline AcG-13, Hedging Relationships, and provides requirements for the designation, documentation, accounting and disclosure of qualifying hedge relationships. The Company's cash flow hedges on a portion of its US$175 million Senior Notes are recorded at fair value on the balance sheet with gains and losses recorded through OCI until realized. The adoption of the hedging standard has not had a material effect on the Company's results of operations or cash flows; however, the effective portion of the cash flow hedges is recorded as a component of OCI.

iv) Transitional Adjustment

The transitional adjustments relating to financial instruments, including embedded derivatives, are recorded in opening retained earnings as at January 1, 2007. These adjustments include (i) financial instruments classified as held-for-trading that were not previously recorded at fair value, and (ii) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards.

Adjustments arising as a result of re-measuring hedging instruments designated as cash flow hedges are recognized in the opening balance of accumulated other comprehensive loss.

Transitional adjustments were as follows:

(millions)		January 1, 2007
Financial instruments classified as held-for-trading, net of tax of $0.6	$	(1.0)
Deferred gain on discontinued hedging relations, net of tax of $0.3		0.5
Transitional adjustment – retained earnings	$	(0.5)
Fair value of cash flow hedges, net of tax of $4.4	$	(9.3)
Transitional adjustment – accumulated other comprehensive loss	$	(9.3)

The fair value of the cash flow hedges, which include amounts previously recorded as other accrued liabilities, are recorded as derivatives on the consolidated balance sheet.

v) Accounting Changes and Equity

The adoption of these standards did not have a material effect on the Company's results of operation, financial position or cash flows.

b) On September 30, 2006, the Company adopted EIC-162, Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date. This standard requires that the compensation cost attributable to stock options be recognized over the period from grant date to the date the employee becomes eligible to retire. The impact of adopting this standard was an increase to the 2006 compensation expense of $0.9 million. The standard requires retroactive restatement of prior periods and accordingly income was reduced and contributed surplus was increased by $0.2 million for the year ended December 31, 2005.

c) On January 1, 2006, the Company adopted EIC-156, Accounting by a Vendor for Consideration Given to a Customer (including a Reseller of the Vendor's Products). This standard requires that the consideration given to a customer, such as rebates, be recorded as a reduction of revenues, not as cost of sales or as an operating expense. The standard requires retroactive restatement of prior periods and, accordingly, revenues and cost of sales for the year ended December 31, 2005 were reduced by $1.2 million but had no impact on net earnings.

3. Future Accounting Changes

In June 2007, the CICA issued a new accounting standard: CICA Handbook section 3031, Inventories. This standard is effective for fiscal years beginning on or after January 1, 2008. The standard requires certain costs, previously recorded as period costs, be allocated to inventory and included in cost of sales when inventory is sold. Prior to the adoption of this standard, these costs were treated as operating expenses. The Company is adopting this standard effective January 1, 2008. Prior periods will not be restated. The adoption of this standard is not expected to have a material effect on the Company's results of operations or cash flows.

In addition, during 2007 the CICA issued section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentation, which provide enhanced disclosure and presentation requirements and replace section 3861, Financial Instruments – Disclosure and Presentation. The CICA also issued section 1535, Capital Disclosures, which provides guidance on disclosure of the entity's objectives, policies and processes for managing capital. The Company does not expect that the adoption of these standards will have a material impact on its consolidated financial statements.

4. Acquisition

On September 28, 2007, the Company completed its acquisition of 100% of the outstanding shares of JMS Metal Services, Inc. and related companies. JMS Metal Services is part of the metals service centers segment (Note 16).

The Company has accounted for the acquisition using the purchase method. The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The Company's purchase price allocations are as follows:

(millions)		
Accounts receivable	**$**	**18.2**
Inventories		**24.3**
Prepaids and other assets		**0.2**
Property, plant and equipment		**44.0**
Accounts payable and accrued liabilities		**(15.6)**
Intangible assets		**8.9**
Goodwill		**36.1**
Net identifiable assets		**116.1**
Debt assumed		**(7.1)**
		109.0
Cash		**4.9**
Net assets acquired	**$**	**113.9**
Consideration:		
Cash	**$**	**112.7**
Transaction costs		**1.2**
	$	**113.9**

The cash consideration and purchase price allocation is subject to change due to tax election and other adjustments under the acquisition agreement that will be finalized by September 30, 2008. The structure of the acquisition includes an election which qualifies the goodwill to be tax deductible in the United States.

5. Goodwill, Intangibles and Restructuring

a) Components of goodwill and intangibles were as follows:

(millions)	**2007**	2006	2005
Customer lists – metals service centers	**$ 8.6**	$ –	$ –
Goodwill – metals service centers	**43.4**	7.8	7.8
Goodwill – energy tubular products	**1.4**	1.4	1.4
	$ 53.4	$ 9.2	$ 9.2

The continuity of goodwill is as follows:

(millions)	**2007**	2006	2005
Balance – beginning of year	**$ 9.2**	$ 9.2	$ 9.2
Goodwill acquired	**36.1**	–	–
Foreign exchange	**(0.5)**	–	–
Balance – end of year	**$ 44.8**	$ 9.2	$ 9.2

The continuity of intangibles is as follows:

(millions)	**2007**
Customer lists acquired	**$ 8.9**
Amortization	**(0.1)**
Foreign exchange	**(0.2)**
	$ 8.6

b) Goodwill impairment

The Company completed its annual goodwill impairment tests using projected discounted cash flows, during the fourth quarter of 2007 and 2006, resulting in no impairment charge.

c) Restructuring

Restructuring of the Company's metals service center segment's operations as a result of acquisitions is charged to income as incurred. Under certain conditions, restructuring relating to the acquired operation is included in the net assets acquired. There was no restructuring accrued as part of the JMS Metal Services acquisition.

Restructuring recorded in income:

(millions)	**2007**	2006	2005
Gain on Assets Held for Sale	**$ –**	$ (1.2)	$ (2.9)
Impairment loss – Ontario branch	**–**	–	1.3
Ontario branch severance and other employee termination costs	**–**	–	0.5
Restructuring (Note 11)	**$ –**	$ (1.2)	$ (1.1)

During 2005, the Company announced the closure of its Milton, Ontario branch. The Company determined, based on a valuation, that the carrying amount of the property and equipment was greater than the fair value and recorded an impairment loss in 2005 of $1.3 million. On December 31, 2005, the Company vacated the property and accordingly classified its carrying value of $5.1 million as an Asset Held for Sale. On May 18, 2006, the Company sold the Milton, Ontario location for $6.2 million. The resulting gain of $1.2 million was recorded in restructuring. The Company provided for contractual termination costs of $0.5 million relating to the employees terminated at this location in 2005.

On May 2, 2005, the Company sold its Lachine property for net proceeds of $5.8 million. The before tax gain of $2.9 million was recorded in restructuring.

6. Discontinued Operations and Divestitures

As part of the acquisition of Acier Leroux in 2003, the Company adopted a formal plan to dispose of the Acier Leroux U.S. operations and classified them as discontinued, all of which were divested. During 2007, the Company resolved the remaining issues relating to these operations and recorded a recovery of $1.6 million.

On May 10, 2005, the Company sold its investment in Armabec Inc., a metals service center, for book value less selling costs. In the second quarter of 2005, as a result of this divestiture, the Company classified Armabec Inc. as discontinued, and the revenue and results of operations for the period from January 1, 2005 to the date of sale were reclassified to discontinued operations accordingly.

On February 23, 2005, the Company sold its investment in Poutrelles Delta, for $4.1 million in cash with no gain or loss upon sale. The revenue and results of operations for Poutrelles Delta for 2005 and prior periods were reclassified as discontinued.

Basic and fully diluted loss per share from discontinued operations was $0.03 (2005 and 2006: $nil).

7. Property, Plant and Equipment

(millions)		**2007**		2006
	Cost	**Net**	Cost	Net
Land and buildings	**$ 171.4**	**$ 126.3**	$ 144.0	$ 103.3
Machinery and equipment	**234.2**	**92.0**	207.8	76.2
Leasehold improvements	**26.3**	**9.6**	26.1	10.0
	$ 431.9	**$ 227.9**	$ 377.9	$ 189.5

The Company has asset retirement obligations relating to the land lease for its Thunder Bay Terminal operations whose lease term expires in 2017. The landlord has the option to retain the facilities or to require the Company to remove them. In addition, the Company has end-of-lease obligations in six of its service center operations.

During the year ended December 31, 2007, the Company increased its probability-weighted undiscounted expected cash flow relating to its asset retirement obligations and the probability-weighted discounted expected cash flow by insignificant amounts as a result of an increase in forecasted costs. The probability range was 50% to 99% and the discount rate used was 10%. The asset retirement obligation, including applicable accretion at December 31, 2007, was $0.5 million (2006: $0.5 million) and the undiscounted expected cash flow relating to its asset retirement obligation was $1.6 million (2006: $1.6 million).

8. Other Assets

Other assets includes $9.9 million of asset-backed commercial paper. As at December 31, 2007, the Company held an $11.0 million investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment matured on August 23, 2007 but was not repaid due to a disruption of the Canadian ABCP market. The Montreal Group representing banks, asset-backed commercial paper providers and major investors has reached an agreement to restructure the ABCP market. This restructuring, which is expected to be completed by March 31, 2008, will replace the existing short-term investments with longer term notes with a maturity of 7 years, on average. These notes will be issued as Senior and Subordinated Notes and a margin facility will be in place for those investors who do not wish to self finance margin calls.

At December 31, 2007, the Company made a fair value determination of this investment. There is no active market for this type of investment, therefore the Company used a probability-weighted valuation technique considering the time value of money and the associated credit risk. The Company used the following assumptions in its valuation based on limited available information: the trust is a going concern, the Senior Notes will be AAA rated, and the Notes will be interest bearing but interest received will be net of the restructuring costs and the standby fees on the margin facility. The credit risk interest premium was estimated by management and these estimates are not based on observable market prices or rates. Changes in the assumptions may have an effect on the fair market value of this investment. In addition, there is no certainty regarding the eventual recovery of this investment and, consequently, the timing and amount of any future cash flows may vary materially from current estimates.

The fair value write-down of this investment was $1.1 million (Note 11) for the year ended December 31, 2007. The fair value write-down could range from $0.6 million to $2.2 million based on alternative reasonable assumptions. Since the investment is no longer capable of reasonably prompt liquidation, the Company has reclassified this investment to long-term in other assets. This investment continues to be classified as held-for-trading.

9. Revolving Credit Facilities

On December 27, 2007, the Company extended its credit facility for an additional period to January 15, 2011. This facility was originally entered into with a syndicate of banks on October 29, 2004. This facility provides a line of credit to a maximum of $200 million, including letters of credit. This three-year facility provides for annual extensions. Borrowings under this facility are restricted by certain financial covenants which the Company was in compliance with at December 31, 2007. The obligations of the Company under this agreement are secured by a pledge of trade accounts receivable and inventories of a significant portion of the Company's operations. At December 31, 2007 and 2006, the Company had no borrowings and letters of credit of $13.6 million and $54.8 million, respectively.

In addition, a U.S. subsidiary has its own credit facility. The maximum borrowing under this facility is US$50.0 million. At December 31, 2007 and 2006, this subsidiary had no borrowings and letters of credit of US$14.6 million and US$36.1 million, respectively.

10. Long-Term Debt

The long-term debt was comprised of the following:

(millions)		**2007**		2006
6.375% US$175 million Senior Notes due March 1, 2014	**$**	**169.0**	$	203.9
Capital lease obligations – Arkansas development bonds		**6.8**		–
Less: current portion		**(0.9)**		–
	$	**174.9**	$	203.9

On February 20, 2004, the Company issued US$175 million Senior Notes due March 1, 2014, bearing interest at 6.375%.

The Company entered into fixed for fixed cross currency swaps with major banks to manage the foreign currency exposure on US$100 million of the 6.375% Senior Notes. On the swaps, the Company receives U.S. denominated interest at 6.375% on a notional US$100 million and pays Canadian dollar interest at 7.12% on a notional $131.8 million. As part of the swaps, the Company exchanged US$100 million for $131.8 million on February 20, 2004 and will receive US$100 million for $131.8 million on March 1, 2014. Both the swap counterparties and the Company have the right to early terminate the swaps in the first quarter of 2009. Effective January 1, 2007, the swaps are recorded at fair value on the balance sheet. The Company has designated the swaps as a cash flow hedge of its long-term debt. The effective portion of the change in fair value is recorded through other comprehensive income and the ineffective portion is recorded through net income. The ineffective portion charged to income in 2007 was $0.9 million (Note 11).

The US$175 million Senior Notes are redeemable, in whole or in part, at the option of the Company on or after March 1, 2009 at 103.188% of the principal amount declining rateably to 100% of the principal amount on or after March 1, 2012. In addition, the Senior Notes are also redeemable, in whole, at the option of the Company at any time at 100% of the principal amount in the event of certain changes affecting Canadian withholding taxes. The Senior Notes contain certain restrictions on the payment of common share dividends in excess of $0.08 per share per quarter. Fees associated with the issue of the debt have been recorded as deferred charges and, effective January 1, 2007, these costs are included in the carrying amount of the debt and amortized using the effective interest method. The Company was in compliance with all debt covenants at December 31, 2007.

On September 28, 2007, the Company assumed certain capital lease obligations as part of the JMS Metal Services acquisition. Obligations on these capital leases have maturities as follows: March 1, 2014: $2.2 million; May 1, 2014: $3.0 million and September 1, 2017: $2.2 million.

Interest rates on these capital leases range from 2.4% to 5.4%. These leases require annual payments as follows: 2008: $1.3 million; 2009: $1.3 million; 2010: $1.3 million; 2011: $1.3 million; 2012: $1.3 million; 2013 and beyond: $2.7 million.

11. Other Expense (Income)

(millions)		**2007**		2006		2005
Unrealized loss on investment (Note 8)	**$**	**1.1**	$	–	$	–
Ineffectiveness on cash flow hedges (Note 10)		**0.9**		–		–
Change in fair value of financial instruments		**0.5**		–		–
Restructuring (Note 5)		**–**		(1.2)		(1.1)
	$	**2.5**	$	(1.2)	$	(1.1)

12. Interest Expense

(millions)		**2007**		2006		2005
Interest on long-term debt	**$**	**15.3**	$	14.8	$	15.2
Other interest expense		**0.2**		0.4		2.3
Interest income		**(8.4)**		(8.5)		–
	$	**7.1**	$	6.7	$	17.5

Total interest paid by the Company in 2007 was $15.2 million (2006: $14.8 million; 2005: $17.7 million).

13. Income Taxes

a) The non-current future income tax balances consisted of:

(millions)		**2007**		2006
Future income tax assets				
Pensions and benefits	**$**	**0.8**	$	0.9
Other timing		**0.2**		0.2
Tax benefits of loss carryforwards		**–**		0.2
Plant and equipment		**–**		0.4
Gross future income tax assets		**1.0**		1.7
Valuation allowance		**–**		(1.3)
Total future income tax assets		**1.0**		0.4
Future income tax liabilities				
Plant and equipment		**(8.2)**		(7.7)
Pensions and benefits		**(0.1)**		(0.1)
Other timing		**1.7**		(0.8)
Items charged to equity		**0.8**		1.8
Total future income tax liabilities		**(5.8)**		(6.8)
Net future income taxes	**$**	**(4.8)**	$	(6.4)

b) The Company's effective income tax rate was derived as follows:

(millions)	**2007**	2006	2005
Average combined statutory rate	**34.3%**	34.5%	35.5%
Rate difference of U.S. companies	**1.1%**	1.1%	0.7%
Recognition of previously unrecorded tax benefits	**(1.0%)**	(0.5%)	(1.3%)
Statutory tax rate changes	**(0.3%)**	(0.2%)	–
Stock compensation not deductible	**1.2%**	0.5%	0.3%
Other	**0.1%**	(0.6%)	(2.6%)
Average effective tax rate	**35.4%**	34.8%	32.6%

c) The details of the income tax provision are as follows:

(millions)	**2007**	2006	2005
Current provision	**$ 55.9**	$ 80.9	$ 54.1
Future provision	**4.7**	4.3	6.3
Statutory rate adjustments	**(0.5)**	(0.4)	–
	$ 60.1	$ 84.8	$ 60.4

d) Income taxes paid in 2007 were $75.7 million (2006: $71.0 million; 2005: $110.4 million).

e) The Company has utilized all of its net operating losses of $1.2 million previously carried forward. At December 31, 2007, the Company had capital losses of $39.4 million (2006: $41.0 million) which do not expire. A valuation allowance has been recorded as the realization of these losses is not more likely than not.

14. Shareholders' Equity

a) The components of shareholders' equity are as follows:

(millions)		**2007**		2006
Common shares	**$**	**504.2**	$	491.2
Retained earnings		**411.7**		411.1
Contributed surplus (related to stock-based compensation)		**6.2**		3.5
Accumulated other comprehensive loss		**(38.3)**		(11.2)
	$	**883.8**	$	894.6

b) At December 31, 2007 and 2006, the authorized share capital of the Company consisted of:

(i) an unlimited number of common shares without nominal or par value;

(ii) an unlimited number of Class I preferred shares without nominal or par value, issuable in series; and

(iii) an unlimited number of Class II preferred shares without nominal or par value, issuable in series.

The directors have the authority to issue the Class I and Class II preferred shares in series and fix the designation, rights, privileges and conditions to be attached to each series, except that the Class I shares shall be entitled to preference over the Class II shares with respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company.

c) The number of common shares issued and outstanding at December 31 was as follows:

	Number of Shares		Amount (millions)
Balance, December 31, 2005	50,656,009	$	208.1
Common shares issued – public offering	11,000,000		275.3
Stock options exercised	710,833		7.8
Balance, December 31, 2006	62,366,842		491.2
Stock options exercised	699,250		13.0
Balance, December 31, 2007	**63,066,092**	**$**	**504.2**

On March 16, 2006, the Company closed its public offering of 10,000,000 common shares at a price of $25.75 per share and received net proceeds of $246.7 million. The Company granted the underwriters an option to purchase up to an additional 1,000,000 common shares on the same terms as the issue. These additional shares were issued on March 30, 2006 for net proceeds of $24.7 million. In addition to the underwriters fees, expenses of $0.5 million have also been netted from the proceeds of this offering and the tax benefits of $3.9 million associated with the share issue costs have been recorded in share capital.

d) The Company has a shareholder-approved share option plan, the purpose of which is to provide the employees of the Company and its subsidiaries with the opportunity to participate in the growth and development of the Company. The number of common shares that may be issued under the share option plan is 5% of the current issued and outstanding common shares. The options are exercisable on a cumulative basis to the extent of 20% per year of total options granted, except that under certain specified conditions the options become exercisable immediately. The consideration paid by employees for purchase of common shares is added to share capital.

The following is a continuity of options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2007	2006	**2007**	2006
Balance, beginning of the year	**2,014,033**	1,869,466	$ **18.09**	$ 11.12
Granted	**845,500**	865,000	**33.81**	25.88
Exercised	**(699,250)**	(710,833)	**15.55**	9.23
Expired or forfeited	**(13,600)**	(9,600)	**24.44**	19.20
Balance, end of the year	**2,146,683**	2,014,033	$ **25.07**	$ 18.09
Exercisable	**449,183**	326,233	$ **24.15**	$ 20.29

The outstanding options had an exercise price range as follows:

(number of options)	**2007**	2006
$25.75 – $33.81	**1,481,350**	858,500
$9.16 – $15.85	**424,900**	633,600
$5.50 – $9.15	**215,600**	371,400
$3.00 – $5.49	**24,833**	150,533
Options outstanding	**2,146,683**	2,014,033

The options expire in the years 2010 to 2017 and have a weighted average remaining contractual life of 7.3 years (2006: 7.5 years).

The Black-Scholes option-pricing model assumptions used to compute compensation expense under the fair value-based method are as follows:

	2007	2006	2005
Dividend yield	**5%**	5%	5%
Expected volatility	**28%**	29%	25%
Expected life	**5 yrs**	5 yrs	7 yrs
Risk free rate of return	**4%**	5%	5%
Weighted average fair value of options granted	**$ 5.99**	$ 5.05	$ 2.93

e) The Company has established a Deferred Share Unit (DSU) plan for its non-executive directors. A DSU entitles the holder to receive, upon redemption, a cash payment equivalent to the market value of a common share at the redemption date. DSUs are credited to the director accounts on a quarterly basis and vest immediately. At December 31, 2007, there were 27,673 DSUs outstanding (2006: 20,981).

f) Total compensation cost for stock-based compensation was as follows:

(millions)	**2007**	2006	2005
Stock options	**$ 4.8**	$ 3.4	$ 1.5
Deferred share units	**0.1**	0.2	0.3
	$ 4.9	$ 3.6	$ 1.8

g) Diluted share amounts as restated were computed as follows:

(number of shares)	**2007**	2006	2005
Weighted average shares outstanding	**62,835,303**	59,887,382	50,461,330
Dilution impact of stock options	**415,088**	562,688	591,797
Diluted weighted average shares outstanding	**63,250,391**	60,450,070	51,053,127

15. Financial Instruments

a) Fair value

The Company records its debt at amortized cost using the effective interest method. The fair value of long-term debt as at December 31, 2007 and 2006 is estimated based on the last quoted trade price, where it exists, or on the current rates available to the Company for similar debt of the same remaining maturities. The fair value of the Company's Senior Notes at December 31, 2007 was US$162.0 million (2006: US$166.9 million).

The fixed cross currency swaps (derivatives) qualify for hedge accounting because of high correlation and effectiveness between the hedging instrument and hedged item. The swaps are measured at market value at the balance sheet date, recorded on the balance sheet under the caption Derivatives, and the effective portion of the gains or losses on the derivatives are recorded in other comprehensive income until maturity. The ineffectiveness is measured and recognized in the statement of earnings with an offset to other comprehensive income. Prior to January 1, 2007 the difference between the foreign exchange rate on the swaps and the period end exchange rate was recorded under the caption Other Accrued Liabilities (2006: $15.4 million).

As at December 31, 2007 and 2006, the estimated fair value of other financial assets and liabilities approximates their carrying values.

b) Credit risk

The Company, in the normal course of business, is exposed to credit risk relating to accounts receivable from its customers. This risk is mitigated by the fact that its customer base is geographically diverse and in different industries. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts and the fixed for fixed cross currency swaps. The Company mitigates this risk by entering into forward contracts and swaps with members of its credit facility syndicate.

c) Interest rate risk

The Company is not exposed to significant interest rate risk. The Company's long-term debt is at fixed rates. The Company's cash and cash equivalents used to finance working capital, which is short-term in nature, are at floating interest rates.

d) Foreign exchange risk

The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. As at December 31, 2007, the Company had outstanding forward foreign exchange contracts in the amounts of US$11.5 million and €3.5 million, maturing in the first half of 2008 (2006: US$16.5 million and € nil). The foreign exchange gain on U.S. denominated financial assets and liabilities included in 2007 operating earnings from continuing operations was $3.8 million (2006: $1.7 million; 2005: $1.6 million).

In order to mitigate its foreign exchange exposure, the Company has designated its swaps as a hedge of US$115 million of its long-term debt. In addition, the Company has designated a portion of the Senior Notes not hedged by the swaps as a hedge of its net investment in foreign subsidiaries.

16. Segmented Information

The Company conducts business primarily in three metals business segments:

i) ***Metals service centers***
The Company's network of metals service centers provides processing and distribution services on a broad line of metal products in a wide range of sizes, shapes and specifications, including carbon hot rolled and cold finished steel, pipe and tubular products, stainless steel and aluminum. The Company services all major geographic regions of Canada and certain regions in the Southeastern and Midwestern United States.

ii) ***Energy tubular products***
The Company's energy tubular products operations distribute oil country tubular products, line pipe, tubes, valves and fittings, primarily to the energy sector in Western Canada and western United States.

iii) ***Steel distributors***
The Company's steel distributors act as master distributors selling steel to customers in large volumes, mainly on an "as is" basis. The steel distributors source their steel domestically and off shore.

The Company has segmented its operations on the basis of type of customer, management reporting and geographic segments in which it operates. The inter-segment sales from steel distributors to metals service centers were $51.9 million (2006: $85.1 million; 2005: $57.4 million). These sales, which are at market rates, are eliminated in the table following.

a) Results by business segment:

(millions)	**2007**	2006	2005
Segment Revenues			
Metals service centers	**$ 1,435.2**	$ 1,507.9	$ 1,538.5
Energy tubular products	**677.2**	614.3	595.2
Steel distributors	**436.1**	559.4	468.7
	2,548.5	2,681.6	2,602.4
Other	**10.7**	10.5	11.7
	$ 2,559.2	$ 2,692.1	$ 2,614.1
Segment Operating Profits			
Metals service centers	**$ 101.9**	$ 126.4	$ 115.2
Energy tubular products	**54.5**	62.2	54.0
Steel distributors	**39.1**	76.7	46.6
	195.5	265.3	215.8
Corporate expenses	**(18.6)**	(18.2)	(16.8)
Other income	**2.4**	1.9	2.4
	$ 179.3	$ 249.0	$ 201.4
Capital Expenditures			
Metals service centers	**$ 13.8**	$ 24.4	$ 23.6
Energy tubular products	**2.3**	2.8	1.5
Steel distributors	**0.3**	0.3	0.2
Other	**0.2**	0.1	1.2
	$ 16.6	$ 27.6	$ 26.5
Depreciation Expense			
Metals service centers	**$ 16.9**	$ 15.8	$ 15.1
Energy tubular products	**1.3**	1.1	1.0
Steel distributors	**0.4**	0.4	0.4
Other	**0.9**	1.1	1.2
	$ 19.5	$ 18.4	$ 17.7
Identifiable Assets			
Metals service centers	**$ 693.0**	$ 618.7	$ 583.8
Energy tubular products	**358.0**	359.3	281.0
Steel distributors	**128.7**	195.3	138.1
Identifiable assets by segment	**1,179.7**	1,173.3	1,002.9
Assets not included in segments			
Cash	**181.8**	209.9	47.1
Income tax assets	**4.9**	2.5	1.3
Deferred financing charges	**0.3**	6.8	7.3
Other assets	**11.8**	3.2	2.8
Corporate and other operating assets	**24.8**	26.5	33.8
Total assets	**$ 1,403.3**	$ 1,422.2	$ 1,095.2

b) Results by geographic segment:

(millions)	**2007**	2006	2005
Segment Revenues			
Canada	**$ 1,916.1**	$ 1,999.8	$ 1,983.8
United States	**632.4**	681.8	618.6
	$ 2,548.5	$ 2,681.6	$ 2,602.4
Segment Operating Profits			
Canada	**$ 144.0**	$ 190.8	$ 161.3
United States	**51.5**	74.5	54.5
	$ 195.5	$ 265.3	$ 215.8
Identifiable Assets			
Canada	**$ 856.2**	$ 946.4	$ 839.4
United States	**323.5**	226.9	163.5
	$ 1,179.7	$ 1,173.3	$ 1,002.9

17. Pensions and Benefits

a) The Company maintains defined benefit pension plans, post-retirement benefit plans and defined contribution pension plans in Canada and 401(k) defined contribution pension plans in the United States. Actuarial valuations are performed on defined benefit plans every three years or earlier if required. The most recent valuations for the Company's defined benefit pension plans are as follows:

Number of Plans	Valuation Date
1	January 1, 2005
1	January 1, 2006
1	December 31, 2006
5	January 1, 2007

All of the Company's pension plans had a measurement date of December 31, 2007.

The components of the Company's pension and benefit expense included the following:

(millions)	**2007**	2006	2005
Defined benefit pension plans			
Benefits earned during the year	**$ 2.5**	$ 2.3	$ 1.8
Interest cost on benefit obligation	**4.6**	4.4	4.5
Expected return on plan assets	**(5.5)**	(4.8)	(4.2)
Valuation allowance adjustment	**0.9**	–	–
Other	**0.5**	0.7	0.3
	3.0	2.6	2.4
Post-retirement benefits	**0.4**	0.4	0.4
Defined contribution plans – contributions	**0.8**	0.6	0.8
	4.2	3.6	3.6
Related to discontinued operations	**(0.2)**	(0.2)	(0.3)
Pension and benefit expense	**$ 4.0**	$ 3.4	$ 3.3

The actuarial determinations were based on the following assumptions in each year:

	2007	2006	2005
Assumed discount rate – year end	**5.8%**	5.0%	5.0%
Expected long-term rate of return on plan assets	**7.0%**	7.0%	7.0%
Rate of increase in future compensation	**4.0%**	4.0%	4.0%
Rate of increase in future government benefits	**3.5%**	3.5%	3.5%

The health care cost trend rates used were 5% for dental and 10% graded out for medical, which is reduced 0.5% per year until 5% and 5% thereafter. A 1% change in trend rates would not result in a significant increase or decrease in either the accrued benefit obligation or the net periodic cost.

b) The following information pertains to the Company's defined benefit pension and other benefit plans, excluding those which are in the process of being wound up.

	Pension Plans		Other Benefit Plans	
(millions)	**2007**	2006	**2007**	2006
Reconciliation of accrued benefit obligation				
Balance, beginning of the year	**$ 90.6**	$ 87.9	**$ 6.8**	$ 6.9
Current service cost	**2.5**	2.3	**–**	–
Participant contribution	**0.3**	0.3	**–**	–
Interest cost	**4.6**	4.4	**0.3**	0.3
Benefits paid	**(4.0)**	(4.1)	**(0.3)**	(0.4)
Plan amendments	**0.1**	–	**–**	–
Actuarial gain	**(10.5)**	(0.2)	**(0.2)**	–
Balance, end of the year	**$ 83.6**	$ 90.6	**$ 6.6**	$ 6.8
Reconciliation of fair value of plan assets				
Balance, beginning of the year	**$ 78.1**	$ 66.3	**$ –**	$ –
Actual return of plan assets	**6.2**	6.7	**–**	–
Employer contributions	**4.3**	8.9	**0.3**	0.4
Employee contributions	**0.3**	0.3	**–**	–
Benefits paid	**(4.0)**	(4.1)	**(0.3)**	(0.4)
Balance, end of the year	**$ 84.9**	$ 78.1	**$ –**	$ –
Unamortized amounts				
Funded status – (deficit)	**$ 1.3**	$ (12.5)	**$ (6.6)**	$ (6.8)
Unrecognized prior service cost	**0.8**	0.8	**–**	–
Unamortized net actuarial loss	**3.2**	14.8	**0.8**	1.1
Valuation allowance	**(0.9)**	–	**–**	–
Accrued benefit asset (liability)	**$ 4.4**	$ 3.1	**$ (5.8)**	$ (5.7)

As at December 31, 2007, one of the defined benefit pension plans in the above table had an unfunded obligation and all executive pension plans had an unfunded obligation. As at December 31, 2006, all the plans in the above table had an unfunded obligation.

The other benefit plans represent obligations to retired employees of sold or closed businesses. No active employees are entitled to post-retirement benefits.

(millions)		**2007**		2008
Defined contribution plans				
Fair value of plan assets				
Canadian plans	**$**	**6.5**	$	6.3
401(k) U.S. plans		**25.0**		23.6
	$	**31.5**	$	29.9

c) As at December 31, 2007, approximately 56% of all pension plan assets were invested in equities, 22% in fixed income securities, and 22% in cash and cash equivalents. The expected return on plan assets is based on the fair value of plan assets. Management endeavours to have an asset mix of approximately 55% in equities, 40% in fixed income securities and 5% in cash and cash equivalents. The investment policy allows up to 30% in cash and cash equivalents. The volatility of the markets has caused management to invest a correspondingly greater percentage of the pension plan assets in cash and cash equivalents. The plan assets are not invested in either derivatives or real estate assets.

The expected annual benefits to be paid from the plans are as follows:

(millions)		Pension Plans		Other Benefit Plans		Total
2008	$	3.6	$	0.4	$	4.0
2009		3.8		0.4		4.2
2010		4.0		0.4		4.4
2011		4.3		0.4		4.7
2012		4.6		0.4		5.0
2013 – 2017		29.0		2.6		31.6

The elements of defined benefit costs recognized in the year are as follows:

(millions)		**2007**		2006
Current service costs	**$**	**2.5**	$	2.3
Interest on accrued benefit obligation		**4.9**		4.8
Actual return on assets		**(6.2)**		(6.7)
Actuarial gain on accrued benefit obligation		**(10.5)**		(0.2)
Prior service costs		**0.1**		–
Elements of future benefit costs		**(9.2)**		0.2
Adjustments to recognize the long-term nature of employee benefit costs:				
Difference between expected and actual return on assets		**0.7**		1.9
Difference between actuarial losses recognized and actuarial losses incurred		**11.0**		0.8
Difference between prior service costs recognized and prior service costs incurred		**0.8**		0.1
Defined benefit cost recognized	**$**	**3.3**	$	3.0

18. Contingencies, Guarantees and Commitments

a) The Company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these claims cannot be determined, management intends to defend all claims and has recorded provisions based on its best estimate of the potential losses. In the opinion of management the resolution of these matters is not expected to have a materially adverse effect on the Company's financial position, cash flows or operations.

b) The Company and its subsidiary companies have operating lease commitments, with varying terms, requiring approximate annual payments as follows: 2008: $11.2 million; 2009: $10.4 million; 2010: $9.5 million; 2011: $7.5 million; 2012: $6.1 million, 2013 and beyond: $9.8 million. Rental expense on operating leases was as follows: 2007: $12.4 million; 2006: $11.8 million and 2005: $11.1 million.

c) The Company is incurring site cleanup and restoration costs related to properties not utilized in current operations. Remedial actions are currently underway at three sites. The estimated costs of these cleanups have been provided for based on management's best estimates. Additional costs may be incurred at these or other sites as site cleanup and restoration progress, but the amounts cannot be quantified at this time.

d) The Company has also entered into other agreements that provide indemnifications to counterparties in certain transactions including underwriting agreements. These indemnifications generally require the Company to indemnify the counterparties for costs incurred as a result of losses from litigation that may be suffered by counterparties arising from those transactions. The Company does not expect to make any payments on these indemnifications and, accordingly, no liability has been accrued.

19. Subsequent Event

On February 18, 2008, the Company approved a normal course issuer bid. The bid allows the purchase on the open market of up to 6,000,000 common shares over the next twelve months. All purchases will be made in compliance with the by-laws, rules and policies of the Toronto Stock Exchange.

Operating under the name **Russel Metals**, unless otherwise noted.

CANADA

BRITISH COLUMBIA

Operating under the name **A.J. Forsyth** throughout BC

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830 Carlisle Road, V3M 5P4
Tel: (604) 525-0544

Campbell River
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Tel: (250) 287-8841

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Tel: (250) 774-7553

Fort St. John
10019 Finning Frt.,
Mile 49 1/2 Alaska Highway,
V1J 4M6
Tel: (250) 785-5641

Kelowna
8955 Grigg Road, V4V 2N5
Tel: (250) 766-6050

Kitimat
815 Enterprise Avenue, V8C 2P1
Tel: (250) 632-4702

Nanaimo
1950 East Wellington Road,
V9S 5V2
Tel: (250) 753-1555

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1154 Pacific Street, V2N 5S3
Tel: (250) 563-1274

990 Industrial Way, V2N 5S1
Tel: (250) 563-1274

ALBERTA

Calgary
5724 40th Street SE, T2C 2A1
Tel: (403) 279-6600

Edmonton
7016 99th Street NW, T6E 3R3
Tel: (780) 439-2051

5730 72A Avenue NW, T6B 3L1
(Specializing in plate processing)
Tel: (780) 439-2051

2471 76th Avenue NW, T6P 1P6
(Specializing in non-ferrous sales)
Tel: (780) 440-0779

Grande Prairie
11035 89th Avenue, T8V 5B9
Tel: (780) 539-3193

Red Deer
6724 Golden West Avenue, T4P 1A8
Tel: (403) 346-2096

SASKATCHEWAN

Regina
445 1st Avenue E, S4N 4Z3
Tel: (306) 721-6411

Russel Metals Specialty Products
475 1st Avenue E, S4N 4Z3
Tel: (306) 721-9355

Saskatoon
922 51st Street E, S7K 5C7
Tel: (306) 931-3338

Russel Metals Specialty Products
3319 Wells Avenue, S7K 5W6
Tel: (306) 931-2257

MANITOBA

Winnipeg
1359 St. James Street, R3H 0K9
Tel: (204) 772-0321

1510 Clarence Avenue, R3T 1T6
Tel: (204) 475-8584

Russel Metals Specialty Products
75 Terracon Place, R2J 4B3
Tel: (204) 772-0321

ONTARIO

Mississauga (Toronto) – Regional Office
1900 Minnesota Court,
Suite 210, L5N 3C9
(Ontario General Line Sales)
Tel: (905) 819-7777

Aberfoyle (Guelph)
24 Nicholas Beaver Road, RR#3, N1H 6H9
(Specializing in plate processing)
Tel: (519) 767-3800

Burlington
Milspec Industries
5036 South Service Road, L7L 5Y7
(Specializing in strapping)
Tel: (905) 333-0646

Cambridge
15 Cherry Blossom Road, N3H 4R7
Tel: (519) 650-1666

Hamilton
175 Shaw Street, L8N 3S2
(Specializing in non-ferrous sales)
Tel: (905) 522-5930
(Specializing in chain)
Tel: (905) 522-1130

Kingston
191 Dalton Avenue, K7K 6C2
Tel: (613) 546-1281

London
685 Hale Street, N5W 1J1
Tel: (519) 451-1140

Oldcastle (Windsor)
4051 Del Duca Drive, N0R 1L0
Tel: (519) 737-1549

Ottawa
2420 Stevenage Drive, K1G 3W3
Tel: (613) 738-2961

Port Robinson
York – Ennis
200 South Street North, L0S 1K0
Tel: (905) 384-9700

Stoney Creek (Hamilton)
B&T Steel
1052 South Service Road, L8E 6G3
(Specializing in flat rolled)
Tel: (905) 643-3008

McCabe Steel
687 Arvin Avenue, L8E 5R2
Tel: (905) 643-4271

Thunder Bay
620 Norah Crescent, P7C 5V8
Tel: (807) 622-8898

QUEBEC

Boucherville – Regional Office
Acier Leroux
1331, rue Graham-Bell, J4B 6A1
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Métaux Russel Produits Spécialisés
1330, rue Graham-Bell, J4B 6H5
Tel: (450) 641-1130

Acier Richler
1330, rue Graham-Bell, J4B 6H5
Tel: (450) 449-5112

Amos
Acier Leroux
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Baie-Comeau
Acier Leroux
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Chicoutimi
Acier Leroux
2149, rue de la Fonderie, G7H 8C1
Tel: (418) 545-8881

Jonquière
Métaux Russel
2420, rue Bauman, G7S 4S4
Tel: (418) 548-3103

Quebec
Acier Loubier
5225, rue John Molson, G1X 3X4
Tel: (418) 656-9911

Rimouski
Acier Leroux
221, rue des Négociants, G5M 1B7
Tel: (418) 724-4937

Saint-Augustin-de-Desmaures
Acier Leroux
167, rue de Rotterdam, G3A 2K2
Tel: (418) 878-5737

Sept-Îles
Acier Leroux
533, boulevard Laure Est, G4R 4K2
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Terrebonne
Acier Leroux
1025, boulevard des Entreprises,
J6Y 1V2
(Specializing in structurals)
Tel: (514) 333-5380

Thetford Mines
Mégantic Métal
1400, boulevard Frontenac Est,
G6G 5R9
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NEW BRUNSWICK

Edmundston
25, rue Richards, Parc Industriel Nord,
E3V 4H4
Tel: (506) 739-9561

Sackville
141 Crescent Street, E4L 3V2
Tel: (506) 364-1234

Saint John
37 McIlveen Drive,
McAllister Industrial Park,
E2L 4B3
Tel: (506) 635-0005

NOVA SCOTIA

Halifax – Regional Office
28 Lakeside Park Drive, B3T 1A3
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NEWFOUNDLAND

St. John's (Mount Pearl)
11 Panther Place,
Donovans Industrial Estates,
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> united states metals service centers directory

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Operating under the name
Russel Metals Williams Bahcall
throughout Wisconsin

WISCONSIN
Appleton
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54912 – 1054
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Green Bay
895 Hinkle Street, 54303
Tel: (920) 497-1020

Milwaukee
999 West Armour Avenue, 53221
Tel: (414) 481-7100

OHIO
Solon (Cleveland),
Baldwin International
30403 Bruce Industrial Parkway,
44139
Tel: (440) 248-9500

Operating under the name
JMS Russel Metals

ARKANSAS
Blytheville
5027 N. County Road 1015, 72315
(Specializing in processing)
Tel: (870) 762-9956

Hope
3716 Highway 32 North, 71801
Tel: (870) 972-5802

Jonesboro
2801 Commerce Drive, 72402
Tel: (870) 972-5802

KENTUCKY
Paducah
1455 Bloom Avenue, 42001
Tel: (270) 575-0308

TENNESSEE
Jackson – Regional Office
620 Old Hickory Blvd.,
Suite 400, 38305
Tel: (731) 984-8122

1320 E. Chester, 38301
Tel: (731) 423-3297

1061 James Buchanan Drive, 38301
(Specializing in plate processing)
Tel: (731) 424-6359

ALABAMA
Decatur
1312 Commerce Drive N.W., 35601
Tel: (256) 308-0580

GEORGIA
Trenton
199 South Industrial Blvd., 30752
Tel: (706) 657-5484

> energy tubular products directory

CANADA
Comco Pipe and Supply Company
Edmonton, Alberta
5910 17th Street NW, T6P 1S5
Tel: (780) 440-2000

Calgary, Alberta
9307 48th Street SE, T2C 2R1
Tel: (403) 203-0766

Fort McMurray, Alberta
300 MacDonald Crescent, T9H 4B6
Tel: (780) 743-3404

Stonewall, Manitoba
116 4th Street E, R0C 2Z0
Tel: (204) 467-8797

Guelph, Ontario
Kerr Industrial Park (Aberfoyle), N1H 6H9
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Sarnia, Ontario
1018 Prescot Drive, N7T 7H3
Tel: (519) 332-6666

Dollard des Ormeaux, Quebec
65 boulevard Brunswick,
Suite 106, H9B 2N4
Tel: (514) 421-2455

Fedmet Tubulars
Calgary, Alberta
700 9th Avenue SW,
Suite 2200, T2P 3V4
Tel: (403) 237-0955

Triumph Tubular & Supply
Calgary, Alberta
441 5th Avenue SW,
Suite 875, T2P 2V1
Tel: (403) 262-3777

UNITED STATES
Pioneer Pipe
Woodland, Washington
1780 Down River Drive, 98674
Tel: (360) 225-3101

Orange, California
2430-A N. Glassell Street, 92865
Tel: (714) 998-9938

Lindon, Utah (Provo)
1610 West 200 South, 84042
Tel: (801) 224-8739

Aurora, Colorado
2401 Picadilly Road, 80019
Tel: (303) 307-9021

Denver, Colorado
1660 Lincoln Street,
Suite 2300, 80264
Tel: (303) 289-3201

Houston, Texas
2203 Timberloch Place,
The Woodlands, Suite 125-1,
77380
Tel: (281) 292-2875

Spartan Steel Products
Evergreen, Colorado
2942 Evergreen Parkway,
Suite 300, 80439
Tel: (303) 670-9048

Idyllwild, California
P.O. Box 3496, 92549
Tel: (951) 659-5868

Pittsburg, Texas
P.O. Box 10, 75686
Tel: (903) 856-1800

> steel distributors directory

CANADA
Wirth Steel
Burnaby, British Columbia
4603 Kingsway,
Suite 308, V5H 4M4
Tel: (604) 436-1741

Toronto, Ontario
2 Bloor Street W.,
Suite 700, M4W 3R1
Tel: (416) 961-7311

Montreal, Quebec
1 Westmount Square
Suite 200, H3Z 2P9
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UNITED STATES
Sunbelt Group L.P.
Houston, Texas
1990 Post Oak Boulevard,
Suite 950, 77056-3817
Tel: (713) 840-0550

Overland Park, Kansas
7300 W. 110th Street
Suite 660, 66210
Tel: (913) 491-6660

Arrow Steel Processors
Houston, Texas
8710 Clinton Drive, 77029
Tel: (713) 673-0666

> other

CANADA
Thunder Bay Terminals
Thunder Bay, Ontario
P.O. Box 1800, Station F,
McKellar Island, P7C 5J7
Tel: (807) 625-7800

> definitions

Book value per share
Equity value divided by ending shares outstanding.

Debt as % of capitalization
Total net interest bearing debt excluding cash on hand divided by common shareholders' equity plus interest bearing debt excluding cash on hand.

Dividend per share
The December 15th quarterly dividend annualized.

Dividend yield
The dividend per share divided by the year end common share price.

EBIT
Earnings from continuing operations before deduction of interest and income taxes.

EBITDA
Earnings from continuing operations before deduction of interest, income taxes, depreciation and amortization.

Earnings multiple
Period ending common share price divided by basic earnings per common share.

Free cash flow
Cash from operating activities before change in working capital less capital expenditures plus proceeds on sale of assets.

Interest bearing debt to EBITDA
Total interest bearing debt excluding cash on hand divided by EBITDA.

Market capitalization
Outstanding common shares times market price of a common share at December 31.

Return on capital employed
EBIT over net assets employed.

> russel metals inc. directory

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Stock Symbol: The Toronto Stock Exchange – RUS

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Board of Directors

Alain Benedetti
Corporate Director

James F. Dinning
Chairman of the Board
Western Financial Group Inc.

Carl R. Fiora
Corporate Director,
steel industry executive

Anthony F. Griffiths
Corporate Director,
Chairman of the Board
Russel Metals Inc.

Alice D. Laberge
Corporate Director

Lise Lachapelle
Corporate Director

John W. Robinson
Corporate Director,
steel industry executive

Edward M. Siegel, Jr.
President and Chief Executive
Officer, Russel Metals Inc.

Officers

Anthony F. Griffiths
Chairman of the Board
Toronto

Edward M. Siegel, Jr.
President and
Chief Executive Officer
Mississauga

Brian R. Hedges
Executive Vice President and
Chief Operating Officer
Mississauga

Marion E. Britton
Vice President and
Chief Financial Officer
Mississauga

Lesley M.S. Coleman
Vice President, Controller and
Assistant Secretary
Mississauga

William M. O'Reilly
Secretary
Davies Ward Phillips & Vineberg LLP
Toronto

Elaine G. Toomey
Assistant Secretary
Mississauga

Corporate Governance

Detailed disclosure concerning the Company's governance practices may be found in the Management Proxy Circular.

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Russel Metals Inc.

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