Russel Metals

2008 ANNUAL REPORT

GREAT COMPANY

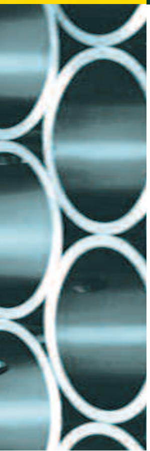
GREAT BALANCE SHEET

EASILY UNDERSTOOD

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.

great company

- LARGEST SERVICE CENTER OPERATION IN CANADA
- REPRESENTS OVER 25% OF THE TOTAL SERVICE CENTER MARKET IN CANADA
- GROWING PRESENCE IN THE U.S. WITH THE ACQUISITION OF JMS RUSSEL METALS AND NORTON METALS
- KEY MANAGEMENT HAS AN AVERAGE OF 30 YEARS OF EXPERIENCE IN THE METALS INDUSTRY



great balance sheet

- DEBT AS A PERCENTAGE OF CAPITALIZATION – 18%
- COMMON SHAREHOLDERS' EQUITY – $980.1 MILLION
- FREE CASH FLOW – $235.9 MILLION
- CURRENT ASSETS REPRESENT 81% OF TOTAL ASSETS
- WORKING CAPITAL DOMINATED BALANCE SHEET

easily understood

- OPERATES IN 3 DISTINCT METALS DISTRIBUTION SEGMENTS
- 62 METALS SERVICE CENTER LOCATIONS THROUGHOUT CANADA AND IN THE SOUTHEASTERN AND MIDWESTERN REGIONS IN THE U.S.
- 7 ENERGY TUBULAR PRODUCTS LOCATIONS PRIMARILY SERVICING THE ENERGY INDUSTRY IN WESTERN CANADA AND THE WESTERN U.S.
- FINANCIAL STRUCTURE EXCLUDES OFF-BALANCE SHEET ITEMS

A tribute to Bud would not be complete without a comment on the Company's financial results, which speak volumes. During his tenure, our market capitalization went from $165 million to $1,300 million. Rewarding our shareholders has been central to Bud's vision throughout the 12 years. On April 26, 2000, we announced the resumption of our common share dividend and since then have paid dividends of $429 million.

Under Bud's leadership, the Company implemented a core strategy of growth by selective acquisitions in the business we know best – metals distribution. We focused on investment opportunities that strengthened our core Canadian franchise and acquired A.J. Forsyth and Acier Leroux. The Company focused on adding mass to its existing service center operations in the U.S., and we purchased Williams Steel, JMS Metal Services and most recently, Norton Metals. In both our steel distributors and energy platforms, we looked at investment opportunities that would be stand-alone operations or complement our existing operations and acquired Sunbelt Group, Triumph Tubular and Spartan Steel.

Those of us fortunate enough to have worked with Bud during the past 12 years have experienced the satisfaction of participating in and helping to enable the transition to the Company we are today. We have the best people in the industry to address the challenges of the current economic crisis. We have the industry's best balance sheet to weather the storm and to be able to take advantage of the opportunities that surely will arise.

The theme Great Company, Great Balance Sheet, and Easily Understood is a direct reflection of Bud's legacy. For those of us who have had the pleasure of walking his journey with him we also add – Great Leader.

Brian R Hedges

B.R. Hedges
Executive Vice President and
Chief Operating Officer

DESPITE THE ECONOMIC CRISIS, THE COMPANY GENERATED RECORD EARNINGS OF $3.67 PER SHARE IN 2008. DURING THE YEAR, THE UNPRECEDENTED SWINGS IN THREE OF OUR KEY BUSINESS DRIVERS, STEEL PRICING, OIL PRICING AND THE CANADIAN DOLLAR, TESTED THE COMPANY'S ABILITY TO REACT IN REAL TIME TO THIS VOLATILE ENVIRONMENT.

The price of flat rolled steel started the year at $563 per ton, peaked mid-year at close to $1,100 per ton and ended the year back at $537 per ton. The 51% drop in the steel price from the peak was not even the most dramatic swing. The price per barrel of oil started the year at $90, peaked at approximately $146 in the summer and dropped 74% from the peak to $36 per barrel at year end. The Canadian dollar also declined during 2008, dropping approximately 20% from close to par with the U.S. dollar at the start of the year to just over $0.80 at year end.

Our metals service centers distribute predominantly North American carbon steel products to manufacturers whose products include steel components and to fabricators involved in infrastructure and commercial construction. We also provide product for the repair and maintenance of manufacturing facilities in the steel, concrete, electricity, mining, and natural resource sectors. Operating earnings in this segment were up 83% over 2007. These operations have reacted well to the shifting conditions, as they were able to substantially reduce their inventory tons by 27% in 2008.

In steel distributors, we sell to other North American steel service centers and some large OEM manufacturers. Earnings in this segment were up 43% over 2007. This segment, however, was adversely impacted by the destocking of service centers in the industry in the fourth quarter of 2008.

Our energy tubular segment provides tubing, casing and pipe to the oil and gas industry, primarily in the U.S. and Canadian Rockies, tubing and casing for down-hole drilling and line pipe for the transmission of oil and gas. We are heavily involved with providing logistics services to the various oil sands projects in Western Canada. In 2008, this segment had record sales and operating profits of $1.1 billion and $143 million, respectively. Current inventory levels are higher than our customers' capital spending forecasts will support based on the current low oil and gas prices. The reduction of inventory in this segment is a primary management focus in 2009.

OUTLOOK

North America is undergoing a severe contraction in economic activity brought about by a myriad of reasons beyond our control. We are taking action to preserve capital and position the Company to be in a strong financial position when the recovery occurs.

Brian R Hedges

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

B.R. Hedges
Executive Vice President and
Chief Operating Officer

AFTER TWELVE YEARS AS THE PRESIDENT & CEO OF RUSSEL METALS, I WILL BE STANDING DOWN AT OUR ANNUAL MEETING FROM THAT POSITION AND AS A MEMBER OF THE BOARD OF DIRECTORS. IT HAS BEEN A WONDERFUL TWELVE YEARS AS I HAVE WATCHED THE COMPANY GO FROM BEING A "RESTRUCTURING" STORY TO BEING THE ENVY OF THE METALS DISTRIBUTION INDUSTRY IN NORTH AMERICA BASED ON OUR ANNUAL REVENUE, OUR EARNINGS, AND MOST OF ALL, THE STRENGTH OF OUR BALANCE SHEET.

When we started in 1997, our equity was $247 million and our Debt to Equity ratio was 1 to 1. Here we are, at the end of 2008, with equity of $980 million and a Debt to Equity ratio of 0.2 to 1. We continue to be a top decile Industry leader when measured by Return on Net Assets, Return on Equity and Return on Capital Employed. In accomplishing this, we went through periods where the majority of the Steel Industry was either in CCAA in Canada or Chapters 7 and 11 in the U.S. Even this year, a year where we are reporting record after-tax earnings in actual dollars and in Earnings per Share, we have accomplished this despite the recession in the U.S. and Canada. During this time, we also returned to our owners $567 million in the form of dividends and share buybacks while growing our asset base by $1 billion through acquisitions and green-field expansions. On top of that, our share appreciation has been 485% before dividends from 1997 through the end of 2008.

What has been most rewarding to me is that this success is directly attributable to the employees of Russel Metals, the majority of whom have been with the Company when we were less than an industry leader. Even though an Industrial Distribution company such as Russel Metals is made up of many assets, some of which are "bricks and mortar," what drives the Company is the intangible assets, our employees. I used to joke with people that if the shareholders were happy, the employees were happy, the Board of Directors was relatively happy, and the Company was outperforming its peer group and making excellent profits, the greatest compliment I could get was if everybody wondered what I actually did during the day. That, to me, signified that we had a terrific team and it takes a team and teamwork to generate the type of success we have had at Russel Metals over the past twelve years.

I would like to thank some of the folks who have been instrumental in our achievements, while recognizing that they have been superbly well supported by the folks they work with. It's unfortunate that I cannot name each and every one of you.

Metals Service Centers – in Canada, from East to West; Ed Peckham in Atlantic, Michel Vaillancourt in Quebec, Joe Mangialardi and Dave Gallo in Ontario, Al Willis and Bruce Robb in the Prairies, David Miller in British Columbia, Sam LeDonne in Stoney Creek and in the U.S., Rod Smith at Williams Bahcall and John Reid at JMS.

Energy Tubular Group – which has provided sensational returns to the organization over the years. These folks have been led by; Doug Lindskog at Fedmet Tubulars, Bruce McBean at Triumph Tubulars, Hank McComb at Comco, Geoff Ridder at Spartan and last, but certainly not least, Mike Harris and Mike Ellis at Pioneer.

Steel Distributor Group – in Canada, Doug Thompson and Larry Reimer and in the U.S., Gerhard Adenacker, Greg Eidman and Glenn Peel.

Corporate – my two favourite travelling companions, Marion Britton, who is now the Chief Financial Officer and Maureen Kelly, Vice President of Information Systems. You will not find better than these two ladies and their extraordinary staffs are a direct reflection of their expertise. Also, David Halcrow in Purchasing and Inventory Management; Lesley Coleman, Vice President & Controller; Laura Cipolla, Director of Taxation; and Rick Greaves, Director of Credit and Collection and all those who have worked with these folks over the years.

Retirees – I would be remiss if I left out those of you who were instrumental in our success but who retired before May 12, 2009. This group includes Duncan Thomas in British Columbia, John Hes in the Prairies, Tom Oelkuch in Ontario and Ken Gilbert in Quebec and Atlantic, who was so important in our integration of Acier Leroux into Russel Metals.

With over 2,500 employees I cannot name all of you who have contributed so mightily to our success, but please know that I realize who you are and I greatly appreciate your role in what we have achieved.

Lastly, I want to thank Brian Hedges who will become your President & CEO upon my departure. Brian has been the perfect wingman for me as his strengths have been those areas where I have shown less interest and he has skillfully ensured that that we have jointly piloted this Company to where it is today. Furthermore, Brian has done all the things that I did not want to be bothered with, and if you are a CEO of a public company there are areas that can distract one from actually managing a business. With the support of the entire Russel Metals team, Brian will be an excellent CEO for this organization.

A former boss once asked me what my mission in business was and I said: “to have as much fun as possible and to leave the place in better shape than how I found it.” I certainly did not miss too much fun over the years and the place is certainly in better shape than it was in 1997. Therefore, as that famous philosopher once said, “there is a time to come and a time to go” and apparently 1997 was my time to become the CEO of Russel Metals and May 12, 2009 is my time to go.

In closing, I would like to thank the Board of Directors for allowing us the leeway to get to where we are today. I also thank my wife, Roz, and my children, Abby and Matt, for their support and understanding for all the days I was away from home and all the family events that I missed because of my business career. Without their support, this could never have happened.

Again, many thanks for your support and I want to wish all of you the most success in both your careers and in your personal lives. I could not have asked for better colleagues.

Sincerely,

Bud

RUSSEL METALS INC. TWELVE-YEAR FINANCIAL HIGHLIGHTS

For the years ended December 31	**2008**	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
OPERATING RESULTS (millions)												
Revenues	**$ 3,366.2**	$ 2,559.2	$ 2,692.1	$ 2,614.1	$ 2,411.4	$ 1,503.8	$ 1,403.3	$ 1,402.5	$ 1,531.0	$ 1,415.4	$ 1,784.8	$ 1,667.4
Net earnings	**228.5**	111.2	158.7	124.5	177.8	18.5	29.2	8.6	23.9	41.9	40.1	30.6
EBIT (Notes)	**355.2**	176.8	250.2	202.5	305.7	55.1	67.9	38.8	66.1	59.2	75.6	60.2
EBIT as a % of revenue	**10.6%**	6.9%	9.3%	7.7%	12.7%	3.7%	4.8%	2.8%	4.3%	4.2%	4.2%	3.6%
EBITDA (Notes)	**378.6**	197.2	270.2	221.7	324.3	71.4	83.1	53.4	80.4	72.7	87.3	70.7
EBITDA as a % of revenue	**11.2%**	7.7%	10.0%	8.5%	13.4%	4.7%	5.9%	3.8%	5.3%	5.1%	4.9%	4.2%
Basic earnings per common share ($)	**$ 3.67**	$ 1.77	$ 2.65	$ 2.47	$ 3.64	$ 0.41	$ 0.71	$ 0.17	$ 0.53	$ 0.74	$ 0.63	$ 0.45
BALANCE SHEET INFORMATION (millions)												
Metals												
Accounts receivable	**$ 425.9**	$ 337.2	$ 324.7	$ 356.1	$ 356.8	$ 247.5	$ 197.6	$ 192.2	$ 246.1	$ 210.7	$ 222.1	$ 259.6
Inventories	**925.1**	572.6	664.0	474.0	553.9	303.1	329.4	265.4	291.0	254.5	331.8	301.8
Prepaid expenses and other assets	**7.6**	4.7	3.8	1.3	1.7	2.0	2.8	2.1	1.6	1.8	2.0	2.1
Accounts payable and accruals	**(393.7)**	(272.3)	(262.8)	(291.2)	(318.5)	(207.9)	(178.6)	(157.3)	(183.7)	(168.5)	(173.4)	(186.6)
Net working capital – Metals	**964.9**	642.2	729.7	540.2	593.9	344.7	351.2	302.4	355.0	298.5	382.5	376.9
Fixed assets	**230.4**	210.4	170.9	162.3	161.6	165.1	88.9	85.8	75.3	73.4	66.3	65.8
Goodwill and intangibles	**71.8**	53.4	9.2	9.2	9.2	4.2	2.7	15.1	7.9	5.1	7.2	8.1
Net assets employed in metals operations	**1,267.1**	906.0	909.8	711.7	764.7	514.0	442.8	403.3	438.2	377.0	456.0	450.8
Other operating assets	**19.4**	20.4	21.5	22.0	22.4	23.3	24.7	26.4	25.2	25.3	30.7	26.7
Net income tax assets and liabilities	**(30.2)**	(3.7)	(19.3)	(9.6)	(59.3)	(1.5)	0.8	13.3	16.0	4.0	4.6	5.4
Deferred financing charges	**0.2**	0.3	6.8	7.2	8.4	3.5	5.0	6.2	7.6	8.2	4.6	4.3
Pension and benefit liabilities	**0.7**	(1.4)	(2.6)	(8.9)	(10.2)	(11.5)	(9.6)	(9.2)	(9.1)	(9.4)	4.0	4.8
Other corporate assets and liabilities	**(38.2)**	(43.8)	(27.6)	(24.6)	(26.2)	(5.5)	(2.6)	3.6	–	39.6	36.1	45.9
Total net assets employed	**$ 1,219.0**	$ 877.8	$ 888.6	$ 697.8	$ 699.8	$ 522.3	$ 461.1	$ 443.6	$ 477.9	$ 444.7	$ 536.0	$ 537.9
CAPITALIZATION (millions)												
Bank indebtedness, net of (cash)	**$ 20.0**	$ (181.8)	$ (209.9)	$ (44.9)	$ 32.6	$ 59.1	$ (3.9)	$ (17.2)	$ 12.3	$ (20.0)	$ 58.3	$ 80.7
Long-term debt (incl. current portion)	**218.9**	175.8	203.9	204.0	210.6	209.4	242.6	244.1	247.5	240.4	263.9	275.7
Total interest bearing debt, net of (cash)	**238.9**	(6.0)	(6.0)	159.1	243.2	268.5	238.7	226.9	259.8	220.4	322.2	356.4
Market capitalization (Notes)	**1,134.2**	1,605.0	1,665.2	1,106.8	773.3	378.2	194.1	136.7	110.1	182.4	178.6	224.4
Total firm value	**$ 1,373.1**	$ 1,599.0	$ 1,659.2	$ 1,265.9	$ 1,016.5	$ 646.7	$ 432.8	$ 363.6	$ 369.9	$ 402.8	$ 500.8	$ 580.8
OTHER INFORMATION (Notes)												
Common shareholders' equity (millions)	**$ 980.1**	$ 883.8	$ 894.6	$ 538.7	$ 456.6	$ 253.8	$ 222.4	$ 216.7	$ 218.1	$ 224.3	$ 213.8	$ 181.5
Book value per share ($)	**$ 16.42**	$ 14.01	$ 14.34	$ 10.63	$ 9.15	$ 5.90	$ $5.84	$ 5.71	$ 5.74	$ 4.72	$ 4.19	$ 3.56
Free cash flow (millions)	**$ 235.9**	$ 123.7	$ 152.4	$ 123.1	$ 184.9	$ 6.0	$ $42.9	$ 30.1	$ 41.0	$ 38.9	$ 41.6	$ 41.0
Capital expenditures (millions)	**$ 22.2**	$ 16.6	$ 27.6	$ 26.5	$ 25.4	$ 34.9	$ $12.8	$ 8.2	$ 13.0	$ 17.2	$ 11.0	$ 8.8
Depreciation and amortization (millions)	**$ 23.4**	$ 20.4	$ 20.0	$ 19.2	$ 18.6	$ 16.3	$ $15.2	$ 14.7	$ 14.2	$ 12.4	$ 11.7	$ 10.5
Earnings multiple	**5.2**	14.4	10.1	8.8	4.3	21.4	7.2	21.2	5.5	5.2	5.6	9.8
Firm value as a multiple of EBIT	**3.9**	9.0	6.6	6.3	3.3	11.7	6.4	9.4	5.6	6.8	6.6	9.6
Firm value as a multiple of EBITDA	**3.6**	8.1	6.1	5.7	3.1	9.1	5.2	6.8	4.6	5.5	5.7	8.2
Interest bearing debt/EBITDA	**0.6**	0.9	0.8	0.9	0.7	2.9	2.9	4.6	3.2	3.3	3.7	5.0
Debt as a % of capitalization	**18%**	17%	19%	27%	32%	45%	52%	53%	53%	52%	55%	60%
Market capitalization as a % of book value	**116%**	182%	186%	205%	169%	149%	87%	63%	51%	81%	84%	124%
Return on capital employed	**29%**	20%	28%	29%	44%	11%	15%	9%	14%	13%	14%	11%
COMMON SHARE INFORMATION												
Ending outstanding common shares	**59,695,290**	63,066,092	62,366,842	50,656,009	49,887,659	43,023,342	38,057,001	37,981,501	37,981,501	47,489,547	51,035,864	51,009,864
Average outstanding common shares	**62,329,483**	62,835,303	59,887,382	50,461,330	48,671,915	40,021,479	38,024,034	37,981,501	41,068,870	49,573,917	51,029,103	51,008,279
Dividend yield (Notes)	**5.3%**	7.1%	6.0%	4.6%	4.5%	3.6%	4.7%	5.6%	6.9%	–	–	–
Dividend per share (Notes)	**$ 1.00**	$ 1.80	$ 1.60	$ 1.00	$ 0.70	$ 0.32	$ 0.24	$ 0.20	$ 0.20	$ –	$ –	$ –
Share price – High	**$ 31.36**	$ 34.47	$ 29.38	$ 22.75	$ 15.75	$ 8.90	$ 5.49	$ 3.90	$ 4.95	$ 4.40	$ 6.25	$ 5.70
Share price – Low	**$ 15.01**	$ 22.75	$ 21.61	$ 13.40	$ 11.61	$ 4.65	$ 3.46	$ 2.70	$ 2.75	$ 2.50	$ 2.51	$ 2.75
Share price – Ending	**$ 19.00**	$ 25.45	$ 26.70	$ 21.85	$ 15.50	$ 8.79	$ 5.10	$ 3.60	$ 2.90	$ 3.84	$ 3.50	$ 4.40

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, 2008, 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

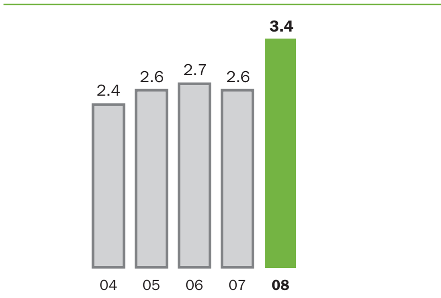
We are one of the largest metals distribution companies in North America. We conduct business primarily in three metals distribution segments: metals service centers; energy tubular products; and steel distributors.

Record high steel prices during the second and third quarters of 2008 were the most significant positive factor, increasing our basic earnings per share from $1.77 for 2007 to $3.67 for 2008. High steel prices and inventory holding gains significantly increased segment operating profits in all three metals segments. In addition, high demand for pipe increased volumes and margins at our energy tubular products segment units, and this, along with high steel prices, resulted in record earnings for this segment.

The current financial crisis has created uncertainty in our economic environment. This economic uncertainty reduced both demand and steel pricing starting in October 2008 in our metals service centers and steel distributor segments. The units in our energy tubular products segment did not see a similar impact until December 2008, when inventory pricing softened. As well fourth quarter gross margins were impacted by write-downs of inventory to net realizable value. We expect pricing to decline further in 2009.

TOTAL REVENUES

$ billions

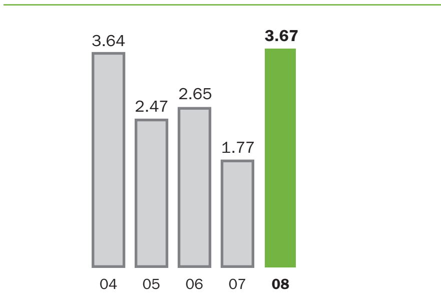


FOURTH QUARTER RESULTS

Revenues for the fourth quarter of 2008 compared to the fourth quarter of 2007 were up 40.8%. All segments had higher revenues; however, operating profits were lower in the metals service centers and steel distributors segments due to write-downs of inventory to net realizable value and lower demand in November and December 2008. Our earnings per share of $0.48 for the fourth quarter of 2008, after a write-down of inventory of $0.39 per share, were stronger than those reported for the fourth quarter of 2007 of $0.40 per share due to the strength of our energy tubular products segment.

EARNINGS PER SHARE

$ per share



CHANGES IN ACCOUNTING POLICIES FOR 2008

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

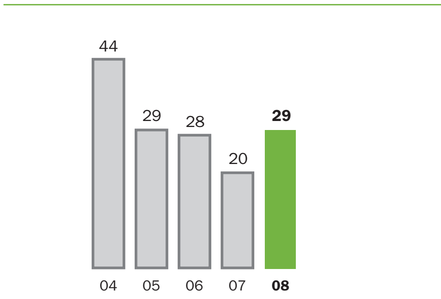
Effective January 1, 2008, we have used absorption accounting for our processing activities. This has resulted in an increase in cost of sales and a decrease in gross margin dollars and an offsetting decrease in operating expenses.

Our 2008 results have been prepared using this standard, and thus the gross margin numbers disclosed for those periods are not comparable to the numbers disclosed for 2007 and 2006. We have chosen not to restate prior periods.

Based on our estimate, the gross margin percentage for our metals service centers is approximately 3% lower due to the absorption of expenses under the new accounting standard applied in 2008 compared to 2007. The gross margin percentage for our energy tubular products group increased approximately 1%, due to costs previously included in cost of sales which are now in operating expenses. The gross margin percentage for our steel distributors segment is not materially different.

RETURN ON CAPITAL EMPLOYED

%



SUMMARIZED FINANCIAL INFORMATION

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

2008

	Three Months Ended				**Year Ended**
(in millions, except per share data and volumes)	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Dec. 31**
Revenues	**$ 712.3**	**$ 856.3**	**$ 954.9**	**$ 842.7**	**$ 3,366.2**
Earnings from operations	**52.1**	**121.4**	**144.9**	**42.0**	**360.4**
Net earnings					
– continuing operations	**29.2**	**78.8**	**91.5**	**29.0**	**228.5**
Net earnings	**29.2**	**78.8**	**91.5**	**29.0**	**228.5**
Basic earnings per common share					
– continuing operations	**$ 0.46**	**$ 1.25**	**$ 1.45**	**$ 0.48**	**$ 3.67**
Basic earnings per common share	**$ 0.46**	**$ 1.25**	**$ 1.45**	**$ 0.48**	**$ 3.67**
Diluted earnings per common share					
– continuing operations	**$ 0.46**	**$ 1.24**	**$ 1.44**	**$ 0.48**	**$ 3.65**
Diluted earnings per common share	**$ 0.46**	**$ 1.24**	**$ 1.44**	**$ 0.48**	**$ 3.65**
Market price of common shares					
High	**$ 27.47**	**$ 31.36**	**$ 31.00**	**$ 25.90**	**$ 31.36**
Low	**$ 19.21**	**$ 25.42**	**$ 23.00**	**$ 15.01**	**$ 15.01**
Number of common shares traded	**18,818,832**	**19,622,252**	**19,787,735**	**20,125,919**	**78,354,738**

2007

	Three Months Ended				Year Ended
(in millions, except per share data and volumes)	Mar. 31	June 30	Sept. 30	Dec. 31	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

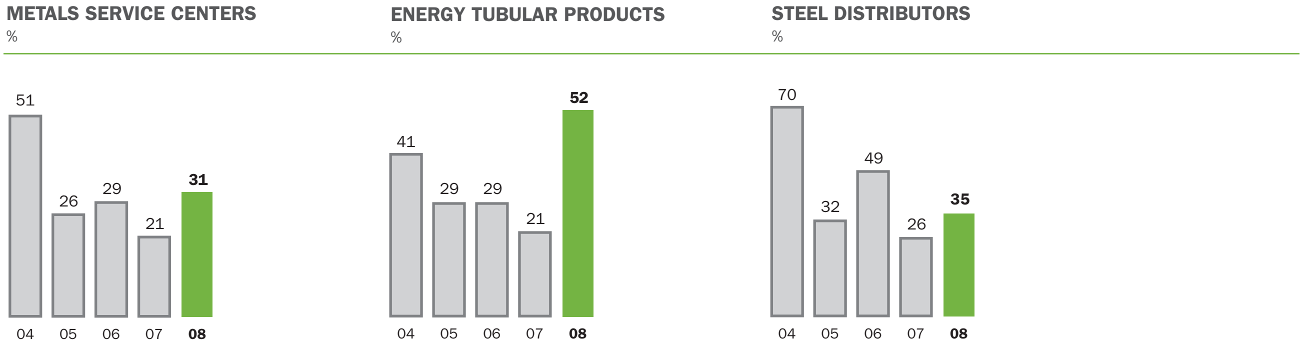
RESULTS OF OPERATIONS

The following table provides operating profits before interest, taxes and other income or expense. 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 gross margin percentages disclosed for 2007 and 2006 have not been restated for the new accounting standard on inventory. The table shows the segments as they are reported to management and they are consistent with the segment reporting in the consolidated financial statements.

(in millions, except percentages)	**2008**	2007	2006	**2008 Change as a % of 2007**	2007 Change as a % of 2006
Segment Revenues					
Metals service centers	**$ 1,833.0**	$ 1,435.2	$ 1,507.9	**28%**	(5%)
Energy tubular products	**1,070.8**	677.2	614.3	**58%**	10%
Steel distributors	**450.7**	436.1	559.4	**3%**	(22%)
Other	**11.7**	10.7	10.5		
	$ 3,366.2	$ 2,559.2	$ 2,692.1	**32%**	(5%)
Segment Operating Profits					
Metals service centers	**$ 186.0**	$ 101.9	$ 126.4	**83%**	(19%)
Energy tubular products	**136.5**	54.5	62.2	**150%**	(12%)
Steel distributors	**55.8**	39.1	76.7	**43%**	(49%)
Corporate expenses	**(21.2)**	(18.6)	(18.2)	**(14%)**	(2%)
Other	**3.3**	2.4	1.9		
Operating profits from continuing operations	**$ 360.4**	$ 179.3	$ 249.0	**101%**	(28%)
Segment Gross Margin as a % of Revenues					
Metals service centers	**23.5%**	24.1%	25.1%		
Energy tubular products	**21.5%**	14.4%	16.5%		
Steel distributors	**17.4%**	13.5%	18.3%		
Total operations	**22.3%**	19.9%	21.9%		
Segment Operating Profits as a % of Revenues					
Metals service centers	**10.1%**	7.1%	8.4%		
Energy tubular products	**12.7%**	8.0%	10.1%		
Steel distributors	**12.4%**	9.0%	13.7%		
Total operations	**10.7%**	7.0%	9.3%		

Note: see Changes in Accounting Policy.

Return on Average Capital Employed



METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 33,000 end users through a network of 50 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, Norton Metals and Baldwin International.

On November 28, 2008, we completed the acquisition of Norton Metal Products, Inc., a metals service center located in Fort Worth, Texas, which is an addition to our JMS Russel Metals unit. As the acquisition occurred near the end of 2008, the one month's results did not have a significant impact on revenues and earnings. Norton Metals had revenues of approximately $74 million for the trailing 12-month period prior to the acquisition date.

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 JMS Metal Services group of companies had revenues of approximately $190 million for the trailing 12-month period prior to the acquisition date. As the acquisition occurred at the end of the third quarter of 2007, our 2007 income statement includes revenues and operating earnings of JMS Russel Metals only for the last three months of 2007.

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 2008, 2007 and 2006 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle. Steel prices increased consistently month over month to the third quarter of 2008 and are the most significant factor positively impacting the 2008 results. Starting in October 2008, steel pricing and demand declined as a result of the financial and economic crisis, which negatively impacted the fourth quarter. 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.

Demand is significantly affected by economic cycles with revenues and operating profit 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. Tons shipped for 2008 were approximately 3% less than for 2007 and 2007 tons shipped were approximately 8% less than 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 share above 25%. This large market share and our diverse customer base of approximately 20,000 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 13,000 customers. The addition of the JMS Russel Metals operations in 2007 and the Norton Metals operations in 2008 has increased our presence in the U.S.

The average exchange rate, used to convert U.S. revenues and earnings, for 2008 approximated that for 2007 despite significant fluctuations in the currency in both years.

c) Metals service centers segment results – 2008 compared to 2007

Revenues for 2008 increased by 28% compared to 2007. Excluding JMS Russel Metals revenues for the nine months ended September 30, 2008, revenues in 2008 were approximately 17% higher than 2007, mainly due to the increased price of steel. The average selling price of metal for 2008 was approximately 19% higher than the average selling price for 2007. At the beginning of 2008, the mills increased the price of steel which resulted in increased pricing to our customers. The mill price of steel continued to increase month over month, with certain products reaching all time highs at the end of the first half of 2008, and plateaued in the third quarter. A decline in demand as a result of general economic uncertainty in the fourth quarter of 2008 resulted in a rapid decline in the average selling price to levels near those experienced before the large increases.

Overall tons shipped, excluding JMS Russel Metals, for 2008 were approximately 3% lower than those shipped in 2007. Tons declined in all regions excluding the Prairies which were up and Russel Metals Williams Bahcall which was flat compared to 2007. Tons shipped declined in British Columbia due to reduced demand in the forestry sector; however, increased demand in the Prairie region made up the difference. Tons shipped in metals service centers in the fourth quarter of 2008 were approximately 22% lower than the fourth quarter of 2007 and 24% lower than the third quarter of 2008.

Gross margin as a percentage of revenues was 23.5% for 2008 compared to 24.1% for 2007. We estimate that the impact of the new accounting standard for inventory decreased gross margins by approximately 3%. The 2008 gross margin was impacted by write-downs of inventory to net realizable values during the fourth quarter of 2008 of $5.8 million.

The average revenue per invoice for 2008 was approximately $2,133 compared to $1,801 for 2007.

Operating expenses for 2008 were approximately $25 million higher than those in 2007 after adjusting for the increase in expenses related to JMS Russel Metals for the first nine months of 2008 and the decline due to expenses absorbed in cost of goods sold in 2008. The increase mainly related to higher variable compensation and delivery costs due to the spike in gas costs.

Metals service centers operating profits for 2008 of $186.0 million were $84.1 million higher than 2007, mainly related to higher gross margins and the acquisition of JMS Russel Metals.

d) 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 related 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.

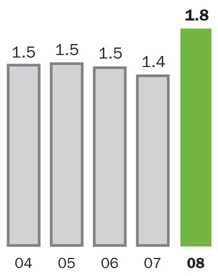
The average selling price of metal in 2007 was approximately the same as the average selling price in 2006. Selling prices declined in the third quarter of 2005 and moved up and down within a 5% band through the end of 2007.

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

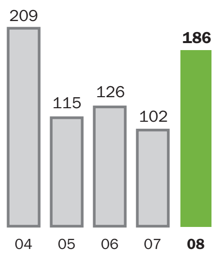
The change in the Canadian dollar versus the U.S. dollar was not a significant factor in relation to inventory costs in the metals service centers as inventory was purchased for our Canadian operations from Canadian or U.S. suppliers based on the landed cost at the specific location in Canada. The strength in the Canadian dollar in the last half of 2007 reduced the replacement cost for certain products sourced from the U.S. This put pressure on selling prices and gross margins as customers expected the lower exchange rate to immediately be factored into the price they pay for metal.

Metals Service Centers

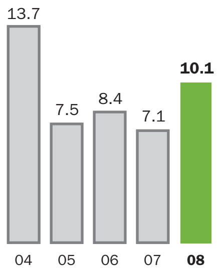
REVENUES
$ billions



OPERATING PROFITS
$ millions



OPERATING PROFITS AS A % OF REVENUE



Operating expenses in our metals service centers segment decreased by $16.9 million, or 7%, compared to 2006 prior to the operating expenses of the JMS Russel Metals operations. This was primarily due to lower compensation expense. Our compensation plans are based on pay for performance and 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 compared to 2006.

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.

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 2008, 2007 and 2006 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, significantly affect demand for our products. In 2007, rig activity declined to levels lower than those experienced at any time in the last 10 years. Rig activity in 2008 increased during the second half of the year; however, remained at levels lower than prior to 2007. The price of natural gas rose in the third quarter of 2008, and we observed increased drilling activity during that time. Although the price of oil and natural gas declined significantly in the fourth quarter of 2008, activity remained at third quarter levels. We are seeing the decline in oil and gas pricing impacting demand during January 2009.

In 2007, the Province of Alberta announced its intention to require industry participants to pay higher royalty payments to the Alberta provincial government starting in 2009. This, along with pricing and foreign exchange rates, adversely impacted the level of oil and gas rig activity, oil sands activity and investment in this province in the second half of 2007 and 2008.

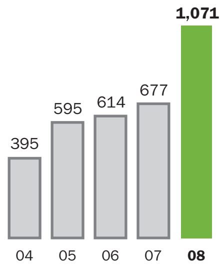
Pricing of metal is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or by government agencies in North America. Trade sanctions have not been a factor for pipe products for a number of years prior to the first quarter of 2008. Both Canadian and U.S. governments imposed duties on Chinese pipe effective at the beginning of 2008. This has helped to improve pricing and reduce inventories in the sector.

Our Canadian operations were positively affected by the U.S. dollar exchange rate for the second half of 2007 and the first half of 2008 since some products are sourced outside Canada and are priced in U.S. dollars.

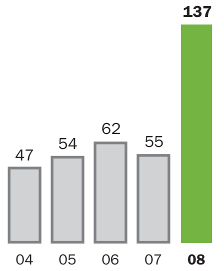
Oil and gas drilling in Western Canada usually peaks during the period from October to March. Our energy tubular products segment had record revenues for 2008 with the third quarter having the highest revenues and operating profits.

Energy Tubular Products

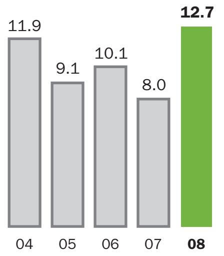
REVENUES
$ millions



OPERATING PROFITS
$ millions



OPERATING PROFITS AS A % OF REVENUE



c) Energy tubular products segment results – 2008 compared to 2007

Revenues increased 58% to $1.1 billion in 2008 compared to 2007. Revenues are higher due to increased volumes and prices in all operations in our energy tubular products segment. Our two operations in Western Canada servicing oil and gas drilling activity had higher volumes in the second half of 2008 compared to 2007. Our U.S. operations and the Canadian operations that service the oil sands of northern Alberta experienced high demand levels starting in the second quarter of 2008.

Gross margin of $230.7 million for 2008 was $133.0 million higher than 2007. The higher margin related to increased volumes and higher selling prices in 2008 offset by a $8.1 million write-down in inventory in the fourth quarter.

Operating expenses were higher by $51.0 million for 2008 compared to 2007, mainly related to expenses moved between cost of goods sold and operating expenses as a result of the new inventories accounting standard, higher variable compensation and higher delivery costs. Gross margins and operating expenses as a percentage of revenues increased 1% related to reclassifying expenses previously included under cost of goods sold to operating expenses. There was no impact on operating income.

Operating profits increased by $82.0 million to $136.5 million for 2008 compared to 2007. The increase in operating profits was due to higher volumes and steel prices.

d) 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 was a result of volume increases in 2007 related to large project 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 that distributes 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. reduced inventory levels in the sector in the first nine months of 2008.

Gross margin as a percentage of revenues was 14.4% for 2007, a decrease from 16.5% for 2006. The lower margin mainly related to the increased cost of goods sold, which resulted from higher tubing and casing prices and lower margins on 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.

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

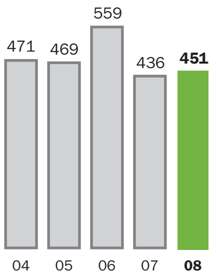
The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted 2008, 2007 and 2006 is found in the sections that follow.

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.

Steel Distributors

The average exchange rate used to convert the revenues and operating profits of our U.S. operations to Canadian dollars for 2008 was approximately the same as 2007 although there was significant movement in the Canadian dollar versus the U.S. dollar during this two-year period.

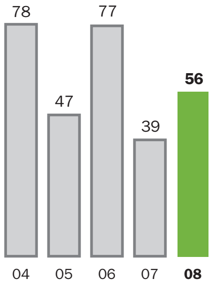
REVENUES
$ millions



The Financial Instruments accounting standard adopted on January 1, 2007, considers an element of 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. Our Canadian operations purchase inventory in currencies that result in embedded derivatives. Volatility in exchange rates causes the foreign currency gain or loss to vary significantly from reporting period to reporting period. The amounts recorded in operating expenses will reverse in future periods and will be added to inventory costs when the material is received.

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. During 2007 and the first half of 2008, demand declined as current pricing for off shore product was higher due to demand outside North America and increased transportation cost, and thus import product was not competitively priced compared to domestic product. During the third quarter of 2008, off shore pricing declined resulting in imports starting to flow to North America.

OPERATING PROFITS
$ millions



c) Steel distributors segment results – 2008 compared to 2007

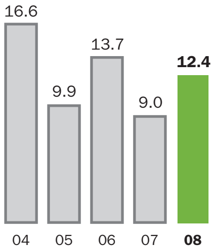
Steel distributors revenues increased 3% to $450.7 million for 2008 compared to 2007 due to the increased selling price of steel. Volumes were lower due to strong international pricing and demand, which resulted in material flowing to areas outside North America.

Gross margin as a percentage of revenues improved to 17.4% for 2008 from 13.5% for 2007. Increased selling prices for product held in inventory by the steel distributor operations resulted in higher margins. Gross margins were negatively impacted by a $21.7 million write-down of inventory to net realizable value in the fourth quarter of 2008. Steel distributors had inventory on order prior to the financial crisis which had declined in value by the time the steel arrived.

Operating expenses were $3.0 million higher for 2008 compared to 2007, mainly related to higher variable compensation based on profitability in 2008.

Operating profits for 2008 were $55.8 million, which is $16.7 million higher than that of 2007, due to the impact of higher steel pricing.

OPERATING PROFITS AS A % OF REVENUE



d) 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 had 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.

Gross margin as a percentage of revenues was 13.5% for 2007, down from 18.3% for 2006. The decline was due to pressure on pricing caused by reduced steel demand in 2007 and the strengthening of the Canadian dollar, which put pressure on selling prices in Canada.

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.

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

CORPORATE EXPENSES – 2008 COMPARED TO 2007 AND 2006

Corporate expenses increased $2.6 million for 2008 and $0.4 million for 2007 compared to 2006. The increase in expenses in 2008 mainly related to increased variable compensation based on higher earnings while the increase in expense in 2007 was primarily related to higher stock-based compensation expense.

OTHER – 2008 COMPARED TO 2007 AND 2006

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for 2008 were stronger than those recorded in 2007 and 2006.

CONSOLIDATED RESULTS – 2008 COMPARED TO 2007 AND 2006

Operating profits from operations were $360.4 million, compared to $179.3 million in 2007 and $249.0 million in 2006. Increased gross margins due to higher steel prices in all segments, the addition of JMS Russel Metals in September 2007 and higher volumes in the energy tubular products segment are the main reasons for the significant increase in profits. The decline in 2007 mainly related to lower volumes in the metals service centers and steel distributors segments. Operating earnings in 2007 compared to 2006 were weaker in all three segments due to weaker gross margins.

Interest Expense

The following table shows the components of our interest expense.

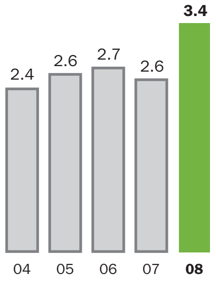
(in millions)		**2008**		2007
Interest on long-term debt	**$**	**15.6**	$	15.3
Other interest (net)		**(5.0)**		(8.2)
Total interest	**$**	**10.6**	$	7.1

Consolidated interest expense for 2008 increased by $3.5 million to $10.6 million compared to 2007 due to lower returns on our cash on hand and lower cash on hand during the second half of 2008.

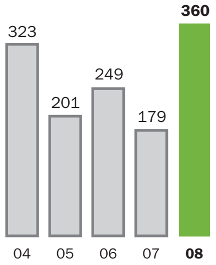
Unrealized Loss on Investment

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 amount of $11.0 million would not be repaid when due as a result of a disruption in the Canadian market for asset-backed commercial paper. A restructuring has been completed and in January 2009 we received $3.4 million A-1 notes, $6.1 million A-2 notes, $1.1 million B notes, $0.3 million C notes and an interest payment of $0.4 million. 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 discounted cash flow technique to obtain an estimated 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 A-1 and A-2 senior notes will be rated investment grade; the principal on the A-2, B and C notes will not be 100% redeemed; the notes will be interest bearing; interest received will be net of the restructuring costs and standby fees on the margin facility; and the interest on the notes other than the A-1 notes will not be paid until 2017. Based on our assumptions, a write-down of $1.1 million was recorded in the second half of 2007 and a further write-down of $5.4 million was recorded in 2008. As more information and a market for the notes become available, the fair value will change.

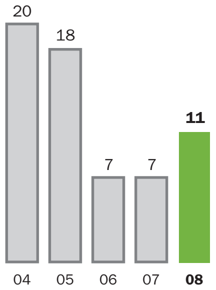
TOTAL REVENUES
$ billions



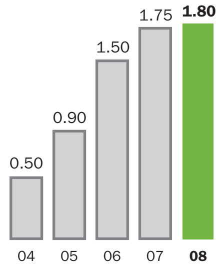
TOTAL OPERATING PROFIT
$ millions



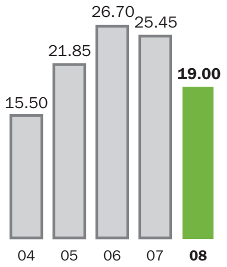
INTEREST EXPENSE
$ millions



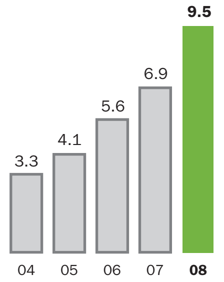
DIVIDENDS PAID PER COMMON SHARE
$ per share



COMMON SHARE PRICE
$ per share



DIVIDEND YIELD
%



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. Based on movement in the market value of the swaps, we recorded a gain of $0.5 million for the year ended December 31, 2008 and an expense of $0.9 million in 2007 related to the ineffectiveness of our cash flow hedges. In addition, the value of our call option related to the Senior Notes was reduced, resulting in a loss of $0.3 million in 2008 and $0.5 million in 2007.

Income Taxes

Our provision for income taxes for 2008 was $116.1 million, which was $56.0 million higher than that of 2007, as a result of higher earnings. Our income tax rate for 2008 was 33.7%, which approximates our normalized effective income tax rate. The rate was lower than 2007 due to previously announced rate reductions in Canada.

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.

Net Earnings

Net earnings for 2008 were $228.5 million compared to $111.2 million for 2007. Basic earnings per common share for 2008 were $3.67 compared to $1.77 in 2007. Our higher net earnings in 2008 mainly relate to the positive influence on gross margins of increases in steel prices, volume increases in the energy sector and earnings from the acquisition of JMS Russel Metals.

Shares Outstanding and Dividends

The weighted average number of common shares outstanding for 2008 was 62,329,483 compared to 62,835,303 for 2007. As at December 31, 2008 and February 23, 2009, we had 59,695,290 common shares outstanding. The decrease related to the repurchase of 3,579,100 shares under the normal course issuer bid approved on February 20, 2008, which allowed us to purchase up to six million common shares prior to February 21, 2009.

We have returned a portion of our earnings to our shareholders by paying common share dividends of $115.4 million in 2008 and $110.1 million in 2007. The increase relates to our increased dividend rate. We paid a cash dividend of $1.80 per share plus a supplemental dividend of $0.05 per share for 2008 and $1.75 per share for 2007.

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 $345 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.

Our ability to pay dividends is also impacted by covenants in our syndicated bank facility. For example, we must maintain a fixed charge coverage ratio of 1.1 to 1 and this ratio is impacted by dividends that we declare. The fixed charge coverage ratio is measured at the end of each fiscal quarter. The numerator consists of our trailing 12-month earnings before depreciation, amortization, interest and taxes less (i) current taxes included in our provision for income taxes for such period, (ii) the dividends declared in the next following quarter multiplied by four, and (iii) in certain circumstances capital expenditures during such 12-month period. The denominator consists principally of our interest expense and would also include any scheduled principal repayments on long-term debt and, in certain circumstances, the principal component of payments under capital leases. As at December 31, 2008, our fixed charge coverage ratio was 13.1 to 1.

EBITDA

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

(millions)		**2008**		2007
Earnings from continuing operations	**$**	**228.5**	$	109.6
Provision for income taxes		**116.1**		60.1
Interest expense, net		**10.6**		7.1
Earnings before interest and income taxes (EBIT)		**355.2**		176.8
Depreciation and amortization		**23.4**		20.4
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$**	**378.6**	$	197.2

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 $22.2 million for 2008 compared to $16.6 million for 2007. Depreciation expense was $22.3 million in 2008 and $19.5 million in 2007. The increase relates to depreciation on additional assets acquired with JMS Russel Metals.

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 approximate depreciation expense over the long term.

LIQUIDITY

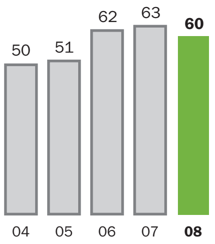
At December 31, 2008, we had bank indebtedness net of cash and cash equivalents of $20.0 million.

Our metals distribution business experiences significant swings in working capital which impact cash flow. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. Accounts receivable and inventory represent our largest liquidity risks. Our customers are impacted by the current economic climate and thus it is possible to have increased days outstanding for accounts receivable and additional bad debts, which may affect the timing of debt repayment. Similarly, the current environment may result in less demand for our products, which may reduce our inventory turns further and result in higher inventory levels. At December 31, 2008, current assets represented 81% of our total assets versus 79% at December 31, 2007. Total assets were $1.8 billion at December 31, 2008 and $1.4 billion at December 31, 2007.

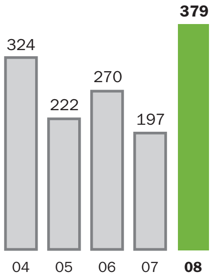
Increases in accounts receivable and inventory have utilized $328.9 million of cash in 2008 driven by steel price increases and volume increases in inventory during the fourth quarter of 2008. Accounts payable increased $99.6 million related to trade payables and variable compensation accruals. Accounts payable will decrease and cash of approximately $58 million will be utilized when variable compensation is paid in the first quarter of 2009. Working capital utilized $201.5 million of cash while operating activities before working capital generated $258.1 million during the year ended 2008.

Cash generated from operating activities before working capital changes was $258.1 million in 2008 and $140.4 million in 2007. Cash generated from operations after working capital requirements was $56.6 million for 2008 compared to $210.7 million for 2007.

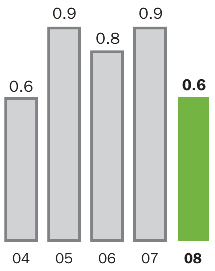
COMMON SHARES OUTSTANDING
millions



EBITDA
$ millions



INTEREST BEARING DEBT TO EBITDA
times



Increases in inventory balances consumed cash of $266.0 million in 2008 related to steel price increases in all segments and increased tons at our energy tubular products and steel distributors segments. Inventory represents 53% of our assets at December 31, 2008.

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

	Quarters Ended				
	Dec. 31 2008	**Sept. 30 2008**	**June 30 2008**	**Mar. 31 2008**	Dec. 31 2007
Metals service centers	**4.6**	**4.2**	**4.5**	**4.5**	4.4
Energy tubular products	**2.4**	**4.0**	**3.6**	**3.9**	2.6
Steel distributors	**2.2**	**2.6**	**4.3**	**4.2**	3.1
Total operations	**3.1**	**3.9**	**4.2**	**4.2**	3.5

Our metals service centers have fewer tons of inventory than at December 31, 2007, but due to price increases that inventory has a higher dollar value.

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 the three months ended December 31, 2008 for U.S. based steel companies was 3.7 turns and for Canadian based companies was 4.1 turns.

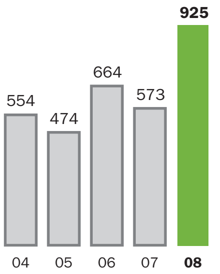
Our energy tubular products units experienced high demand for pipe product during the second and third quarters of 2008 and shortages of certain pipe existed. Based on these record high levels of demand and concern over availability, orders were placed in the third quarter for the anticipated seasonally strong period of October to March. The financial crisis and lower oil and gas prices have reduced pipe demand. Our fourth quarter of 2008 was stronger than the fourth quarter of 2007 but was at levels lower than anticipated. This has resulted in all of our energy tubular products units having more inventory than the current environment supports. Pipe pricing is high but has not seen the same downward pressure as our other two segments. We anticipate that inventory levels in this segment for the next six months will stay higher than is supported by customer demand. In addition, we have concerns that pricing may deteriorate during this period resulting in lower margins and additional write-downs of inventory.

During the third quarter of 2008, when orders were placed for fourth quarter delivery, it appeared that the import pricing was more favourable due to the high price of steel in North America. The current economic downturn has impacted demand and thus this segment also has more inventory than anticipated at time of purchase. This segment was more significantly impacted by inventory write-downs than our other segments due to the timing of the arrival of these inventories and the significant drop in plate pricing.

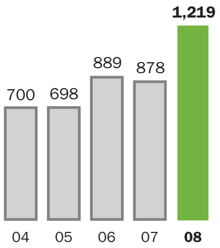
Accounts receivable increased $62.9 million since December 31, 2007, as a result of higher revenues being driven by higher steel prices. Accounts receivable represents 25% of our total assets. Our accounts receivable collection has been very strong and there were minimal bad debts experienced in 2008. The economic slowdown is expected to negatively impact our collections and bad debt experience in 2009. Accounts payable increased $99.6 million since December 31, 2007, which mainly relates to higher trade payables, a result of higher steel prices, and higher variable compensation, which will be paid in the first quarter of 2009.

During 2008, we utilized $86.4 million to purchase shares under our normal course issuer bid. In November 2008, we utilized $30.9 million of cash to acquire Norton Metal Products, Inc. In September 2007, we utilized $109 million of cash to acquire the JMS Metal Services group of companies.

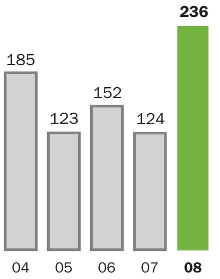
INVENTORIES
$ millions



NET ASSETS EMPLOYED
$ millions



FREE CASH FLOW
$ millions



During 2008, we made income tax payments of $89.1 million compared to payments of $75.7 million in 2007. We have additional payments of approximately $29 million to be made in 2009 related to 2008.

During 2008, we utilized cash of $22.2 million on capital expenditures and $115.4 million on common share dividends. During 2007, we utilized cash of $16.6 million on capital expenditures and $110.1 million on common share dividends.

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.

FREE CASH FLOW

(millions)		**2008**		2007
Cash from operating activities before working capital	**$**	**258.1**	$	140.4
Purchase of fixed assets		**(22.2)**		(16.6)
	$	**235.9**	$	123.8

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.

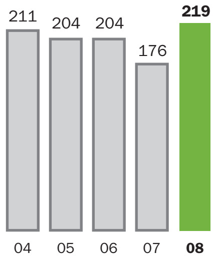
CASH, DEBT AND CREDIT FACILITIES

Debt

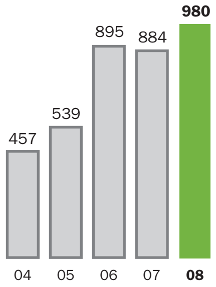
(millions)		**Amortized Cost or Fair Value as at December 31, 2008**		Balance as at December 31, 2007
Long-term debt				
6.375% US$175 million Senior Notes due March 1, 2014	**$**	**210.2**	$	169.0
Capital leases				
Arkansas development bonds, maturing 2014 to 2017		**7.3**		6.8
Other		**1.4**		–
		218.9		175.8
Current portion		**1.4**		0.9
	$	**217.5**	$	174.9
Obligations under cross currency swaps				
Foreign exchange difference on US$100 million	**$**	**9.3**	$	33.0
Additional fair value of cash flows to terminate swaps		**12.8**		6.5
	$	**22.1**	$	39.5

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

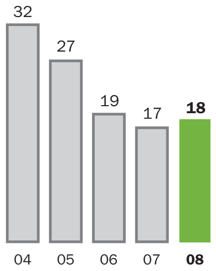
INTEREST BEARING DEBT
$ millions



SHAREHOLDERS' EQUITY
$ millions



DEBT TO CAPITALIZATION
%



Cash and Bank Credit Facilities

As at December 31, 2008 (millions)		**Russel Metals Facility**		**U.S. Subsidiary Facility**		**Total**
Bank loans	**$**	**47.8**	**$**	**15.3**	**$**	**63.1**
Cash net of outstanding cheques		**(44.0)**		**0.9**		**(43.1)**
Net borrowings		**3.8**		**16.2**		**20.0**
Letters of credit		**52.6**		**10.6**		**63.2**
	$	**56.4**	**$**	**26.8**	**$**	**83.2**
Facilities availability	**$**	**200.0**	**$**	**70.4**	**$**	**270.4**

We have a facility with a syndicate of Canadian and U.S. banks for a revolving loan of $200 million, including letters of credit. In December 2007, the term of our facility was extended to January 15, 2011. 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, 2008, we had $47.8 million of borrowings and had letters of credit of $52.6 million. At December 31, 2007, we had no borrowings and had letters of credit of $13.6 million under this facility.

In addition, a U.S. subsidiary has its own bank credit facility which is renewed annually in July. The maximum borrowing under this facility at December 31, 2008 was US$57.5 million. At December 31, 2008, this subsidiary had borrowings of US$12.5 million and had letters of credit of US$8.7 million. At December 31, 2007, this subsidiary had no borrowings and had letters of credit of US$14.6 million.

Based on cash, cash equivalents and our bank facilities, we have access to approximately $187.2 million of cash availability based on our December 31, 2008 balances. The use of our bank facilities has been predominantly to fund working capital requirements. With increased steel prices and demand we have increased accounts receivable and inventories. As steel prices and demand decline these balances reduce and are used to reduce bank borrowings. Our inventory levels increased to $925 million during the fourth quarter of 2008 and are expected to peak in the first quarter of 2009. We have approached our syndicate of banks to increase our borrowings by $100 million and believe we will be able to achieve this based on agreeing to paying higher borrowing rates. As we reduce our inventory levels these funds will be used to reduce bank borrowings.

CONTRACTUAL OBLIGATIONS

As at December 31, 2007, we were contractually obligated to make payments under our long-term debt agreements, cross currency swap agreements and operating lease obligations that come due in the future. See Note 16 to the financial statements for future obligations by year.

We have disclosed our obligations related to environmental litigations, regulatory actions and remediation in our Annual Information Form. The obligations relate to previously divested or discontinued operations and do not relate to the metals distribution business.

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, 2008 exchange rate of 1.2246, we would incur an obligation of $9.3 million in addition to our long-term debt obligation of $210.2 million. The fair value of our swaps includes an additional obligation of $12.8 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, 2008.

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 financial instruments note to the financial statements.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 18 to our 2008 annual consolidated financial statements. During 2008, we contributed $3.2 million to these plans. We expect to contribute approximately $3.2 million to these plans during 2009.

At December 31, 2008, approximately 46% of our pension plan assets were invested in equities, 26% in fixed income securities, and 28% in cash and cash equivalents. We endeavour to have an asset mix of approximately 55% in equities, 40% in fixed income securities and 5% in cash and cash equivalents. Our investment policy allows up to 30% in cash and cash equivalents. Management made the decision to maintain cash and cash equivalents at the high end of the range. These assets did not lose value in the recent market volatility. Consequently, our plans incurred a net loss of only approximately 14% of their asset value during 2008.

FUTURE ACCOUNTING AND REPORTING CHANGES

In February 2008, the CICA issued a new accounting standard: CICA Handbook section 3064, Goodwill and Intangible Assets. This standard is effective for fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company will adopt this standard effective January 1, 2009. The adoption of this standard is not expected to have a material impact on the Company's results of operations or cash flows.

In February 2008, the Accounting Standards Board announced that International Financial Reporting Standards (IFRS) will become Canadian Accounting Standards for publicly accountable enterprises on January 1, 2011. We have performed a preliminary analysis of the impacts of IFRS on our financial reporting process. As a result, we have identified the areas that we believe will have the most significant changes. We have begun the process of performing a qualitative analysis of the expected impacts as well as a quantitative analysis of the more significant or complex issues. As part of our implementation plan, we have increased our technical resources to help with the development and implementation of our plan and to ensure an effective transition to IFRS. A preliminary timeline and framework for implementation has been established.

As part of our preliminary analysis we have initiated the process of assessing the impact of International Accounting Standard (IAS) 16, Property Plant and Equipment, on the financial reporting process. We have solicited a large number of our locations for detailed data with respect to buildings and machinery and equipment in order to quantify the impact of fixed asset componentization, which is expected to be the most time intensive conversion area.

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 net realizable value and 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, which 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 has increased by 0.7% to 1.1% of accounts receivable at December 31, 2008 compared to December 31, 2007.

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 slow moving or obsolete. Significant reductions in market value could result in additional write-downs. The inventory reserve level at December 31, 2008 has increased significantly compared to the level at December 31, 2007 due to decreasing steel prices in the fourth quarter of 2008. Inventories represent 53% of our assets at December 31, 2008. The current financial conditions have negatively impacted both demand and pricing for our current inventories.

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 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 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.

The current financial crisis has led to a significant decrease in the equity markets. The fair value of the plan assets for our defined benefit pension plans has been affected by this market decline. We had approximately $71.9 million in plan assets at December 31, 2008, which represents a 14% loss in asset value from December 31, 2007.

Investment in Asset-Backed Commercial Paper

We have 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.

Our investment in asset-backed commercial paper is included in Other Assets at fair value. As there is currently no market for this product, 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 will 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, document and evaluate our disclosure controls and procedures and our internal controls over financial reporting. An evaluation of the design and operating effectiveness of the disclosure controls and internal controls over financial reporting was conducted as at December 31, 2008. The design and evaluation of internal controls was completed using the framework and criteria established in “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, we have concluded that our disclosure controls and procedures and our internal controls over financial reporting were effective to provide reasonable assurance that information related to our consolidated results and decisions to be made based on those results were appropriate.

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 Norton Metal Products, Inc. in November 2008 provides a continued 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 current financial crisis has created uncertainty in the business communities we service. This uncertainty has caused steel pricing and demand to decrease in the last quarter of 2008 and continue into 2009. The timing and extent of future price changes from steel producers and their impact on us can not be predicted with any certainty due to the inherent cyclical nature of the steel industry. Demand for our product may be reduced due to uncertainty of our customer base and if our customers are unable to finance their current operations.

OUTLOOK

North America is undergoing a severe contraction in economic activity brought about by a myriad of reasons beyond our control. We are taking action to preserve capital and position the Company to be in a strong financial position when the recovery occurs.

February 23, 2009

MANAGEMENT'S REPORT

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 internal and disclosure controls for the year ended December 31, 2008, 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 23, 2009

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

MEBritton.

M.E. Britton
Vice President and
Chief Financial Officer

TO THE SHAREHOLDERS OF RUSSEL METALS INC.

We have audited the consolidated balance sheets of Russel Metals Inc. as at December 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings, comprehensive income, accumulated other comprehensive income (loss) and cash flows for each of the years then ended. 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
February 23, 2009

CONSOLIDATED BALANCE SHEETS

At December 31 (millions)	**2008**	2007
ASSETS		
Current		
Cash and cash equivalents	**$ 44.9**	$ 181.8
Accounts receivable	**429.3**	341.8
Inventories (Note 7)	**925.1**	572.6
Prepaid expenses and other assets	**8.1**	8.5
Income taxes	**7.1**	3.9
	1,414.5	1,108.6
Property, Plant and Equipment (Note 8)	**249.9**	227.9
Future Income Tax Assets (Note 14)	**1.0**	1.0
Pensions and Benefits (Note 18b)	**6.5**	4.4
Other Assets (Note 9)	**7.0**	12.4
Goodwill and Intangibles (Note 5)	**71.8**	53.4
	$ 1,750.7	$ 1,407.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 64.9**	$ –
Accounts payable and accrued liabilities	**420.7**	294.2
Income taxes payable	**30.3**	2.8
Current portion long-term debt (Note 11)	**1.4**	0.9
	517.3	297.9
Derivatives (Note 16)	**22.1**	39.5
Long-Term Debt (Note 11)	**217.5**	174.9
Pensions and Benefits (Note 18b)	**5.8**	5.8
Future Income Tax Liabilities (Note 14)	**7.9**	5.8
	770.6	523.9
Shareholders' Equity (Note 15)		
Common shares	**478.8**	504.2
Retained earnings	**467.0**	411.7
Contributed surplus	**9.4**	6.2
Accumulated other comprehensive income (loss)	**24.9**	(38.3)
	980.1	883.8
	$ 1,750.7	$ 1,407.7

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)		**2008**		2007
Revenues	**$**	**3,366.2**	$	2,559.2
Cost of sales and operating expenses		**3,005.8**		2,379.9
Earnings before the following		**360.4**		179.3
Other expense (Note 12)		**5.2**		2.5
Interest expense, net (Note 13)		**10.6**		7.1
Earnings before income taxes		**344.6**		169.7
Provision for income taxes (Note 14)		**116.1**		60.1
Earnings from continuing operations		**228.5**		109.6
Income from discontinued operations (Note 6)		–		1.6
Net earnings	**$**	**228.5**	$	111.2
Basic earnings per common share – continuing operations (Note 15)	**$**	**3.67**	$	1.74
Basic earnings per common share	**$**	**3.67**	$	1.77
Diluted earnings per common share – continuing operations	**$**	**3.65**	$	1.73
Diluted earnings per common share	**$**	**3.65**	$	1.76

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 (millions)		**2008**		2007
Retained earnings, beginning of the year, as previously reported	**$**	**411.7**	$	411.1
Transitional adjustment – financial instruments (Note 2)		–		(0.5)
Retained earnings, beginning of the year, as restated		**411.7**		410.6
Net earnings for the year		**228.5**		111.2
Amount related to common shares purchased for cancellation (Note 15)		**(57.8)**		–
Dividends on common shares		**(115.4)**		(110.1)
Retained earnings, end of the year	**$**	**467.0**	$	411.7

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31 (millions)		**2008**		2007
Net earnings	**$**	**228.5**	$	111.2
Other comprehensive income (loss)				
Unrealized foreign exchange gains (losses) on translation of self-sustaining foreign operations (U.S. subsidiaries)		**82.6**		(34.5)
Unrealized (losses) gains on items designated as net investment hedges (net of tax of $1.2 (2007: $0.6))		**(12.0)**		9.1
Unrealized (losses) gains on items designated as cash flow hedges (net of tax of $2.8 (2007: $3.1))		**(7.4)**		7.6
Other comprehensive income (loss)		**63.2**		(17.8)
Comprehensive income	**$**	**291.7**	$	93.4

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (millions)		**2008**		2007
Accumulated net unrealized foreign currency translation gains and losses				
Balance, beginning of year	**$**	**(45.7)**	$	(11.2)
Net unrealized gain (loss) on translation of self-sustaining foreign operations		**82.6**		(34.5)
Balance, end of the year		**36.9**		(45.7)
Accumulated net unrealized loss on cash flow and net investment hedges				
Balance, beginning of year		**7.4**		–
Transitional adjustment (Note 2)		–		(9.3)
Unrealized (losses) gains on items designated as net investment hedges (net of tax of $1.2 (2007: $0.6))		**(12.0)**		9.1
Unrealized (losses) gains on items designated as cash flow hedges (net of tax of $2.8 (2007: $3.1))		**(7.4)**		7.6
Balance, end of the year		**(12.0)**		7.4
Accumulated other comprehensive income (loss)	**$**	**24.9**	$	(38.3)

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31 (millions)	**2008**	2007
Operating activities		
Net earnings from continuing operations	**$ 228.5**	$ 109.6
Depreciation and amortization	**23.4**	20.4
Future income taxes	**(1.8)**	4.2
Gain (loss) on sale of fixed assets	**0.5**	(0.5)
Stock-based compensation	**3.7**	4.8
Pension expense (funding) (Note 18)	**(2.1)**	(1.3)
Other	**5.9**	3.2
Cash from operating activities before non-cash working capital	**258.1**	140.4
Changes in non-cash working capital items		
Accounts receivable	**(62.9)**	(5.0)
Inventories	**(266.0)**	89.1
Accounts payable and accrued liabilities	**99.6**	4.7
Current income taxes	**30.1**	(17.6)
Other	**(2.3)**	(0.9)
Change in non-cash working capital	**(201.5)**	70.3
Cash from operating activities	**56.6**	210.7
Financing activities		
Increase in bank borrowing	**64.9**	–
Issue of common shares (Note 15)	**2.8**	10.9
Purchase of common shares (Note 15)	**(86.4)**	–
Dividends on common shares	**(115.4)**	(110.1)
Deferred financing	**(0.1)**	(0.2)
Repayment of long-term debt	**(2.3)**	(0.3)
Cash used in financing activities	**(136.5)**	(99.7)
Investing activities		
Purchase of fixed assets	**(22.2)**	(16.6)
Proceeds on sale of fixed assets	**0.2**	1.5
Purchase of business (Note 4)	**(30.9)**	(109.0)
Reclassification of cash equivalents to other assets	–	(11.0)
Other	**(5.0)**	1.6
Cash used in investing activities	**(57.9**)	(133.5)
Effect of exchange rates on cash	**0.9**	(5.6)
Decrease in cash and cash equivalents	**(136.9)**	(28.1)
Cash and cash equivalents, beginning of the year	**181.8**	209.9
Cash and cash equivalents, end of the year	**$ 44.9**	$ 181.8

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.

Certain of last year's figures have been reclassified to conform to this year's presentation.

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, 2008, short-term investments were $nil (2007: $26.4 million) and demand deposits were $37.0 million (2007: $139.9 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 an average cost basis.

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 $22.3 million in 2008 (2007: $19.5 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 $0.2 million in 2008 (2007: $0.8 million). 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).

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 discounted 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 discounted 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, fifteen years. Amortization of customer lists was $0.6 million for the year ended December 31, 2008 (2007: $0.1 million).

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 1.2246 at December 31, 2008 (2007: 0.9881). Revenues and expenses are translated at the average rate of exchange during the year. For 2008, the U.S. dollar published average exchange rate was 1.0671 (2007: 1.0740). The resulting gains or losses are included in other comprehensive income (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 income (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. 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 whose options are expensed immediately. Fair value is determined by the Black-Scholes option-pricing model. Compensation expense is also recognized for deferred share units when issued, with changes in the quoted market price from the issue date to the reporting period date being charged to compensation expense until the units are exercised.

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 2008 was 62,329,483 (2007: 62,835,303). 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 be 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, 2008, the Company adopted the 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 that 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 adoption of this standard did not have a material effect on the Company's results of operations. As permitted by the standard, prior periods have not been restated.

In addition, on January 1, 2008, the Company adopted 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 Company also adopted section 1535, Capital Disclosures, which provides guidance on disclosure of the entity's objectives, policies and processes for managing capital.

b) 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 standard, 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 Income (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-trading 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, 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. 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.

3. FUTURE ACCOUNTING CHANGES

In February 2008, the CICA issued a new accounting standard: CICA Handbook section 3064, Goodwill and Intangible Assets. This standard is effective for fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company will adopt this standard effective January 1, 2009. The adoption of this standard is not expected to have a material impact on the Company's results of operations or cash flows.

The CICA has announced that Canadian generally accepted accounting principles for profit-oriented publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS). The Company currently plans to begin reporting our financial statements in accordance with IFRS commencing January 1, 2011. The Company is planning the conversion to IFRS but the impact on our financial position and results of operations has not yet been determined.

4. ACQUISITIONS

On November 28, 2008, the Company completed its acquisition of 100% of the outstanding capital stock of Norton Metal Products, Inc., which is part of the metals service centers segment (Note 17).

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 preliminary purchase price allocation is as follows:

(millions)	
Accounts receivable	**$ 5.5**
Inventories	**20.5**
Prepaid expenses and other assets	**0.1**
Property, plant and equipment	**8.5**
Accounts payable and accrued liabilities	**(6.4)**
Taxes payable	**(3.4)**
Intangible assets	**1.3**
Goodwill (non-tax deductible)	**7.2**
Net identifiable assets	**33.3**
Debt assumed	**(2.4)**
	30.9
Cash	**5.7**
Net assets acquired	**$ 36.6**
Consideration:	
Cash	**$ 36.2**
Transaction costs	**0.4**
	$ 36.6

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"). JMS Metal Services is part of the metals service centers segment (Note 17).

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 allocation was as follows:

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

The structure of the JMS Metal Services acquisition includes an election which qualifies the goodwill to be tax deductible in the U.S.

5. GOODWILL AND INTANGIBLES

a) Components of goodwill and intangibles were as follows:

(millions)		**2008**		2007
Customer lists – metals service centers	**$**	**11.3**	$	8.6
Goodwill – metals service centers		**59.1**		43.4
Goodwill – energy tubular products		**1.4**		1.4
	$	**71.8**	$	53.4

The continuity of goodwill is as follows:

(millions)		**2008**		2007
Balance – beginning of year	**$**	**44.8**	$	9.2
Goodwill acquired		**7.2**		36.1
Foreign exchange		**8.5**		(0.5)
Balance – end of year	**$**	**60.5**	$	44.8

The continuity of intangibles is as follows:

(millions)		**2008**		2007
Balance – beginning of year	**$**	**8.6**	$	–
Customer lists acquired		**1.3**		8.9
Amortization		**(0.6)**		(0.1)
Foreign exchange		**2.0**		(0.2)
Balance – end of year	**$**	**11.3**	$	8.6

b) Goodwill impairment

The Company completed its annual goodwill impairment tests, using projected discounted cash flows during the fourth quarter of 2008 and 2007, resulting in no impairment charge.

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.

Basic and fully diluted income per share from discontinued operations was $nil (2007: $0.03).

7. INVENTORIES

For the year ended December 31, 2008, the cost of sales were $2.6 billion. This includes $39.3 million for inventory write-downs and $1.6 million for reversals of previous write-downs due to rising prices early in 2008.

8. PROPERTY, PLANT AND EQUIPMENT

(millions)		**2008**			2007	
	Cost	**Accumulated Depreciation**	**Net**	Cost	Accumulated Depreciation	Net
Land and buildings	**$ 188.2**	**$ (51.4)**	**$ 136.8**	$ 171.4	$ (45.1)	$ 126.3
Machinery and equipment	**260.2**	**(156.7)**	**103.5**	234.2	(142.2)	92.0
Leasehold improvements	**27.2**	**(17.6)**	**9.6**	26.3	(16.7)	9.6
	$ 475.6	**$ (225.7)**	**$ 249.9**	$ 431.9	$ (204.0)	$ 227.9

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 equipment or to require the Company to remove it. In addition, the Company has end-of-lease obligations in certain service center operations.

During the year ended December 31, 2008, the Company did not increase its probability-weighted undiscounted expected cash flow relating to its asset retirement obligations and the probability-weighted discounted expected cash flow. The probability range was 50%–99% and the discount rate used was 10%. The asset retirement obligation, including applicable accretion at December 31, 2008, was $0.6 million (2007: $0.5 million) and the undiscounted expected cash flow relating to its asset retirement obligation was $1.6 million (2007: $1.6 million).

9. OTHER ASSETS

As at December 31, 2008, the Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment, which had an original face value of $11.0 million, is included in other assets at its estimated fair value of $4.5 million. 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 (the “Committee”) reached an agreement to restructure the ABCP market. This restructuring replaced the existing short-term investments with longer term notes, pooled certain series of non-bank asset-backed commercial paper and mitigated the collateral call obligations.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee, under the Companies’ Creditors Arrangement Act (CCAA), establishing a procedure for Noteholder approval of the restructuring plan. On April 25, 2008, the Noteholders voted in favour of the restructuring and on June 5, 2008, the Ontario Superior Court of Justice approved the plan. On December 24, 2008, the Committee announced that an agreement had been reached with all stakeholders including the governments of Canada, Quebec, Ontario and Alberta regarding the restructuring plan. This agreement provided additional margin funding facilities necessary to complete the proposed restructuring in early 2009.

In January 2009, the Company received $10.9 million of new notes issued by a master asset vehicle that included a pooling of leveraged super senior trades as well as traditional assets. The Company investment is held in Master Asset Vehicle 2, which utilizes a margin funding facility provided by other stakeholders as part of the restructuring. The Company received 87% of notes that will pay interest and be assigned an investment grade rating (A-1 and A-2 notes). The remaining notes (B and C notes) are expected to accrue interest that will only be paid subsequent to the payment of interest and principal on the investment grade notes. Under the terms of the restructuring, on January 21, 2009, the Company received $3.4 million A-1 notes, $6.1 million A-2 notes, $1.1 million B notes and $0.3 million C notes. In addition, on January 22, 2009, the Company received $0.4 million in accrued interest.

Quoted market values of this investment are not available and therefore the Company has used a probability-weighted valuation technique considering the time value of money and the expected return of principal. The Company has determined the fair value of its investment using information provided on the proposed restructuring and other factors. Based on the Company's fair value assessment, a fair value adjustment of $2.9 million was recorded in the quarter ended March 31, 2008, $0.3 million was recorded for the quarter ended June 30, 2008 and $2.2 million was recorded for the quarter ended September 30, 2008. There was no fair value adjustment recorded for the quarter ended December 31, 2008 (2007: $1.1 million). The total fair value adjustment recognized to date on the Company's investment is $6.5 million. The Company utilized the following assumptions:

Accrued interest from August 2007	$0.4 million
Bankers' acceptance rate	1.5%
Discount rate for cash flows	9.9%–10.4%
Expected return of principal:	
A-1 notes	100%
A-2 notes	88%
B and C notes	0%

The fair market value of this investment may be affected by changes in market conditions. 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. A change of 100 basis points in the discount factor applied to the cash flows would impact the fair value adjustment by approximately $0.6 million.

10. 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, 2008. 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, 2008, the Company had borrowings of $47.8 million (2007: $nil) and letters of credit of $52.6 million (2007: $13.6 million).

In addition, a U.S. subsidiary has its own one-year credit facility to July 2009. The maximum borrowing under this facility is US$57.5 million. At December 31, 2008, this subsidiary had borrowings of US$12.5 million (2007: $nil) and letters of credit of US$8.7 million (2007: US$14.6 million).

11. LONG-TERM DEBT

The long-term debt was comprised of the following:

(millions)		**2008**		2007
6.375% US$175 million Senior Notes due March 1, 2014	**$**	**210.2**	$	169.0
Capital lease obligations (Note 16)		**8.7**		6.8
Less: current portion		**(1.4)**		(0.9)
	$	**217.5**	$	174.9

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. At December 31, 2008, both the swap counterparties and the Company had the right to early terminate the swaps in the first quarter of 2009. Subsequent to December 31, 2008, the Company entered into agreements to extend the options of the counterparties to the first quarter of 2010.

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 of $0.5 million was recorded as income in 2008 (2007: $0.9 million expense) (Note 12).

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 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, 2008.

12. OTHER EXPENSE

(millions)		**2008**		2007
Unrealized loss on investment (Note 9)	**$**	**5.4**	$	1.1
Ineffectiveness on cash flow hedges (Note 11)		**(0.5)**		0.9
Change in fair value of financial instruments		**0.3**		0.5
	$	**5.2**	$	2.5

13. INTEREST EXPENSE

(millions)		**2008**		2007
Interest on long-term debt	**$**	**15.6**	$	15.3
Other interest expense		**–**		0.2
Interest income		**(5.0)**		(8.4)
	$	**10.6**	$	7.1

Total interest paid in 2008 was $15.1 million (2007: $15.2 million).

14. INCOME TAXES

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

(millions)		**2008**		2007
Future income tax assets				
Pensions and benefits	**$**	**0.8**	$	0.8
Other timing		**0.2**		0.2
Total future income tax assets		**1.0**		1.0
Future income tax liabilities				
Plant and equipment		**(12.7)**		(8.2)
Pensions and benefits		**(0.4)**		(0.1)
Other timing		**1.5**		1.7
Items charged to equity		**3.7**		0.8
Total future income tax liabilities		**(7.9)**		(5.8)
Net future income taxes	**$**	**(6.9)**	$	(4.8)

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

	2008	2007
Average combined statutory rate	**31.9%**	34.3%
Rate difference of U.S. companies	**0.8%**	1.1%
Recognition of previously unrecorded tax benefits	–	(1.0%)
Statutory tax rate changes	–	(0.3%)
Stock compensation and not deductible items	**0.9%**	1.2%
Other	**0.1%**	0.1%
Average effective tax rate	**33.7%**	35.4%

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

(millions)		**2008**		2007
Current provision	**$**	**117.9**	$	55.9
Future provision		**(1.8)**		4.7
Statutory rate adjustments		–		(0.5)
	$	**116.1**	$	60.1

d) Income taxes paid in 2008 were $89.1 million (2007: $75.7 million).

e) At December 31, 2008 and 2007, the Company had capital losses available of $44.4 million which do not expire. A valuation allowance has been recorded as the realization of these losses is not more likely than not.

15. SHAREHOLDERS' EQUITY

a) At December 31, 2008 and 2007, 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.

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

	Number of Shares		Amount (millions)
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
Stock options exercised	208,298		3.2
Normal course issuer bid	(3,579,100)		(28.6)
Balance, December 31, 2008	**59,695,290**	**$**	**478.8**

On February 20, 2008, the Company announced a Normal Course Issuer Bid to purchase up to 6,000,000 of its common shares. During the year ended December 31, 2008, the Company purchased 3,579,100 under this bid at an average cost of $24.14 for a total cost of $86.4 million. The original cost of these shares of $28.6 million was recorded as a reduction of share capital and the balance of $57.8 million to retained earnings. The common shares purchased through this bid have been cancelled.

The continuity of contributed surplus is as follows:

(millions)		**2008**		2007
Balance, January 1	**$**	**6.2**	$	3.5
Stock-based compensation expense		**3.7**		4.8
Exercise of options		**(0.5)**		(2.1)
Balance, December 31	**$**	**9.4**	$	6.2

c) 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			
	2008	2007		**2008**		2007
Balance, beginning of the year	**2,146,683**	2,014,033	**$**	**25.07**	$	18.09
Granted	**834,841**	845,500		**26.70**		33.81
Exercised	**(208,298)**	(699,250)		**13.24**		15.55
Expired or forfeited	**(27,300)**	(13,600)		**25.41**		24.44
Balance, end of the year	**2,745,926**	2,146,683	**$**	**26.46**	$	25.07
Exercisable	**1,072,953**	449,183	**$**	**24.63**	$	24.15

The outstanding options had an exercise price range as follows:

(number of options)	**2008**	2007
$25.75–$33.81	**2,276,826**	1,481,350
$9.16–$15.85	**329,300**	424,900
$5.50–$9.15	**127,300**	215,600
$3.00–$5.49	**12,500**	24,833
Options outstanding	**2,745,926**	2,146,683

The options expire in the years 2012 to 2018 and have a weighted average remaining contractual life of 7.7 years (2007: 7.3 years).

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

	2008	2007
Dividend yield	**5%**	5%
Expected volatility	**28%**	28%
Expected life	**5 yrs**	5 yrs
Risk free rate of return	**4%**	4%
Weighted average fair value of options granted	**$ 4.73**	$ 5.99

d) 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, 2008, there were 31,271 DSUs outstanding (2007: 27,673). In addition, the Company has established a Restricted Share Unit (RSU) plan for certain senior executives. At December 31, 2008, there were no RSUs issued and outstanding under the plan.

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

(millions)	**2008**	2007
Stock options	**$ 3.7**	$ 4.8
Deferred share units	–	0.1
	$ 3.7	$ 4.9

f) Diluted share amounts were computed as follows:

(number of shares)	**2008**	2007
Weighted average shares outstanding	**62,329,483**	62,835,303
Dilution impact of stock options	**198,913**	415,088
Diluted weighted average shares outstanding	**62,528,396**	63,250,391

g) The Company manages capital in order to safeguard its ability to continue as a going concern, provide returns to shareholders through a strong dividend policy and finance future growth. Capital includes shareholders' equity, bank indebtness and long-term debt, net of cash. The Company manages its capital structure and may make adjustments to the amounts of dividends paid to shareholders, purchase shares for cancellation pursuant to issuer bids, issue new shares, issue new debt, repurchase existing debt and extend or amend its syndicated bank facility.

16. 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, 2008 and 2007 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, 2008 was US$135.2 million (2007: US$162.0 million).

The fixed cross currency swaps 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 swaps 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.

As at December 31, 2008 and 2007, the estimated fair value of other financial assets and liabilities approximates their carrying values.

As at December 31, 2008, the Company was contractually obligated to make payments under its long-term debt agreement, cross currency swap agreements and operating and capital lease obligations that come due during the following periods:

(millions)	Long-Term Debt Maturities	Long-Term Debt Interest	Capital Lease Obligations	Operating Lease Obligations	Total
2009	$ 22.1	$ 15.2	$ 2.0	$ 12.8	$ 52.1
2010	–	15.2	2.0	11.6	28.8
2011	–	15.2	1.8	9.3	26.3
2012	–	15.2	1.8	7.8	24.8
2013	–	15.2	1.8	5.8	22.8
2014 and beyond	214.3	6.4	1.8	10.0	232.5
Total	$ 236.4	$ 82.4	$ 11.2	$ 57.3	$ 387.3

The long-term debt interest in the table includes the impact of the swaps. Long-term debt interest has been estimated based on current exchange rates for the portion not hedged. In addition, the Company has contractual obligations on its cross currency swap agreements whereby it receives interest at 6⅜% on a notional US$100 million and pays interest at 7.12% on a notional $131.8 million. The swaps mature on March 1, 2014 at which time the Company will receive US$100 million and will pay $131.8 million. At December 31, 2008, this resulted in an obligation of $9.3 million. The fair value of the swaps includes an additional obligation of $12.8 million, which represents the fair value of payments for the remaining life of the swaps if the Company was to extinguish the swaps at December 31, 2008. At December 31, 2008, swaps contained an option for the Company and the swap counterparties to early terminate the swaps in the first quarter of 2009 (Note 11). Subsequent to December 31, 2008, the Company amended the swap agreements to extend the counterparty options to the first quarter of 2010.

At December 31, 2008, the Company was contractually obligated to repay its bank debt that comes due during the following periods:

	Syndicated Canadian Facility		U.S. Subsidiary Facility		
(millions)	Borrowings	Letters of Credit	Borrowings	Letters of Credit	Total
2009	$ –	$ 52.6	$ 15.3	$ 10.7	$ 78.6
2010	–	–	–	–	–
2011	47.8	–	–	–	47.8
Total	$ 47.8	$ 52.6	$ 15.3	$ 10.7	$ 126.4

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 bank debt, net of cash and cash equivalents, is used to finance working capital, which is short-term in nature. The bank debt is 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, 2008, the Company had outstanding forward foreign exchange contracts in the amounts of US$7.2 million, maturing in the first half of 2009 (2007: US$11.5 million and €3.5 million). The foreign exchange gain on U.S. denominated financial assets and liabilities included in 2008 operating earnings from continuing operations was $3.5 million (2007: $3.8 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.

17. 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 Southeastern and Midwestern regions in the 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 industry in Western Canada and the 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. 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 both metals service centers and the energy tubular divisions were $35.7 million (2007: $51.9 million) and $51.0 million (2007: $4.4 million), respectively. These sales, which are at market rates, are eliminated in the table following.

a) Results by business segment

(millions)	**2008**	2007
Segment Revenues		
Metals service centers	**$ 1,833.0**	$ 1,435.2
Energy tubular products	**1,070.8**	677.2
Steel distributors	**450.7**	436.1
	3,354.5	2,548.5
Other	**11.7**	10.7
	$ 3,366.2	$ 2,559.2
Segment Operating Profits		
Metals service centers	**$ 186.0**	$ 101.9
Energy tubular products	**136.5**	54.5
Steel distributors	**55.8**	39.1
	378.3	195.5
Corporate expenses	**(21.2)**	(18.6)
Other income	**3.3**	2.4
	$ 360.4	$ 179.3
Capital Expenditures		
Metals service centers	**$ 19.2**	$ 13.8
Energy tubular products	**2.4**	2.3
Steel distributors	**0.3**	0.3
Other	**0.3**	0.2
	$ 22.2	$ 16.6
Depreciation Expense		
Metals service centers	**$ 19.5**	$ 16.9
Energy tubular products	**1.6**	1.3
Steel distributors	**0.4**	0.4
Other	**0.8**	0.9
	$ 22.3	$ 19.5
Identifiable Assets		
Metals service centers	**$ 800.5**	$ 693.0
Energy tubular products	**586.1**	358.0
Steel distributors	**274.2**	128.7
Identifiable assets by segment	**1,660.8**	1,179.7
Assets not included in segments		
Cash	**44.9**	181.8
Income tax assets	**8.1**	4.9
Deferred financing charges	**0.2**	0.3
Other assets	**13.2**	16.2
Corporate and other operating assets	**23.5**	24.8
Total assets	**$ 1,750.7**	$ 1,407.7

b) Results by geographic segment

(millions)		2008		2007
Segment Revenues				
Canada	**$**	**2,330.6**	$	1,916.1
United States		**1,023.9**		632.4
	$	**3,354.5**	$	2,548.5
Segment Operating Profits				
Canada	**$**	**247.3**	$	144.0
United States		**131.0**		51.5
	$	**378.3**	$	195.5
Identifiable Assets				
Canada	**$**	**1,023.9**	$	856.2
United States		**636.9**		323.5
	$	**1,660.8**	$	1,179.7

18. 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, 2006
3	December 31, 2006
3	January 1, 2007
1	January 1, 2008

All of the Company's pension plans had a measurement date of December 31, 2008.

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

(millions)		2008		2007
Defined benefit pension plans				
Benefits earned during the year	**$**	**2.2**	$	2.5
Interest cost on benefit obligation		**4.9**		4.6
Expected return on plan assets		**(5.9)**		(5.5)
Valuation allowance adjustment		**(0.4)**		0.9
Other		**0.3**		0.5
		1.1		3.0
Post-retirement benefits		**0.4**		0.4
Defined contribution plans – contributions		**1.0**		0.8
Pension and benefit expense	**$**	**2.5**	$	4.2

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

	2008	2007
Assumed discount rate – year end	**7.0%**	5.8%
Expected long-term rate of return on plan assets	**7.0%**	7.0%
Rate of increase in future compensation	**3.8%**	4.0%
Rate of increase in future government benefits	**3.5%**	3.5%

The health care cost trend rates used were 5% for dental and 8.5% 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)	**2008**	2007	**2008**	2007
Reconciliation of accrued benefit obligation				
Balance, beginning of the year	**$ 83.6**	$ 90.6	**$ 6.6**	$ 6.8
Current service cost	**2.2**	2.5	**–**	–
Participant contribution	**0.3**	0.3	**–**	–
Interest cost	**4.9**	4.6	**0.3**	0.3
Benefits paid	**(4.6)**	(4.0)	**(0.4)**	(0.3)
Plan amendments	**1.1**	0.1	**–**	–
Actuarial gain	**(13.3)**	(10.5)	**(0.7)**	(0.2)
Balance, end of the year	**$ 74.2**	$ 83.6	**$ 5.8**	$ 6.6
Reconciliation of fair value of plan assets				
Balance, beginning of the year	**$ 84.9**	$ 78.1	**$ –**	$ –
Actual return of plan assets	**(11.9)**	6.2	**–**	–
Employer contributions	**3.2**	4.3	**0.4**	0.3
Employee contributions	**0.3**	0.3	**–**	–
Benefits paid	**(4.6)**	(4.0)	**(0.4)**	(0.3)
Balance, end of the year	**$ 71.9**	$ 84.9	**$ –**	$ –
Unamortized amounts				
Funded status – (deficit)	**$ (2.3)**	$ 1.3	**$ (5.8)**	$ (6.6)
Unrecognized prior service cost	**1.8**	0.8	**–**	–
Unamortized net actuarial loss	**7.5**	3.2	**–**	0.8
Valuation allowance	**(0.5)**	(0.9)	**–**	–
Accrued benefit asset (liability)	**$ 6.5**	$ 4.4	**$ (5.8)**	$ (5.8)

As at December 31, 2008, three of the defined benefit pension plans in the above table had unfunded obligations and all executive pension plans had unfunded obligation. As at December 31, 2007, one of the plans in the above table had an unfunded obligation and all executive plans had unfunded obligations.

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

(millions)	**2008**	2007
Defined contribution plans		
Fair value of plan assets		
Canadian plans	**$ 5.1**	$ 6.5
401(k) U.S. plans	**24.8**	25.0
	$ 29.9	$ 31.5

c) As at December 31, 2008, approximately 46% of all pension plan assets were invested in equities, 26% in fixed income securities, and 28% 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
2009	$ 3.9	$ 0.4	$ 4.3
2010	4.1	0.4	4.5
2011	4.3	0.5	4.8
2012	4.7	0.5	5.2
2013	4.9	0.5	5.4
2014–2018	30.4	2.6	33.0

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

(millions)	**2008**	2007
Current service costs	**$ 2.2**	$ 2.5
Interest on accrued benefit obligation	**4.9**	4.9
Actual return on assets	**11.9**	(6.2)
Actuarial gain on accrued benefit obligation	**(13.3)**	(10.5)
Prior service costs	**1.2**	0.1
Elements of future benefit costs	**6.9**	(9.2)
Adjustments to recognize the long-term nature of employee benefit costs:		
Difference between expected and actual return on assets	**(17.8)**	0.7
Difference between actuarial losses recognized and actuarial losses incurred	**13.4**	11.0
Difference between prior service costs recognized and prior service costs incurred	**(1.4)**	0.8
Defined benefit cost recognized	**$ 1.1**	$ 3.3

19. CONTINGENCIES AND COMMITMENTS

a) The Company has 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 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.

c) 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.

CANADIAN METALS SERVICE CENTERS (Operating under the name Russel Metals, unless otherwise noted)

BRITISH COLUMBIA

Operating under the name
A.J. Forsyth throughout B.C.

**Delta (Vancouver) –
Regional Office**
830 Carlisle Road,
Annacis Business Park, V3M 5P4
Tel: (604) 525-0544

Campbell River
2710 Vigar Road,
V9W 6A3
Tel: (250) 287-8841

Fort Nelson
4850 44th Avenue,
V0C 1R0
Tel: (250) 774-7553

Fort St. John
10019 Finning Frontage,
Mile 49½ 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

Langley
27353 58th Crescent,
Units 115 & 116,
V4W 3W7
Tel: (604) 626-0121

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

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

Prince Rupert
298 Boundary Road,
Port Edward,
V0V 1R0
Tel: (250) 628-3303

ALBERTA

Calgary
**Russel Metals and
Russel Metals Specialty Products**
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

Russel Metals Specialty Products
2471 76th Avenue NW,
T6P 1P6
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
806 59th Street East,
S7K 5Z6
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
1725 Inkster Boulevard, Unit D,
R2X 1R3
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,
R.R. #3, N1H 6H9
(Specializing in plate processing)
Tel: (519) 767-3800

Burlington
Milspec Industries
5155 Harvester Road, Unit 2,
L7L 6V2
(Specializing in strapping)
Tel: (905) 333-0646

Russel Metals Specialty Products
5155 Harvester Road, Unit 2,
L7L 6V2
Tel: (905) 681-2933

Chain
5155 Harvester Road, Unit 2,
L7L 6V2
Tel: (905) 681-2933

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

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

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

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)
185 Barton Street,
L8E 2K3
Tel: (905) 662-6401

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
Tel: (450) 641-2280

**Métaux Russel Produits
Spécialisés**
1331, rue Graham-Bell,
J4B 6A1
Tel: (450) 641-1130

Acier Richler
1300, rue Graham-Bell,
J4B 6H5
Tel: (450) 449-5112

Amos
Acier Leroux
1675, route de l'Aéroport,
J9T 3A8
Tel: (819) 732-8381

Baie-Comeau
Acier Leroux
55, avenue William-Dobell,
G4Z 1T8
Tel: (418) 296-8626

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-Iles
Acier Leroux
533, boulevard Laure Est,
G4R 4K2
Tel: (418) 962-6374

Terrebonne
Acier Leroux
1025, boulevard des Entreprises,
J6Y 1V2
(Specializing in structurals)
Tel: (514) 333-5380

Thetford Mines
Mégantic Métal
1400, boulevard Frontenac Est,
C.P. 22, G6G 5R9
Tel: (418) 338-3188

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
Tel: (902) 876-7861

NEWFOUNDLAND

St. John's (Mount Pearl)
11 Panther Place,
Donovans Industrial Estates,
A1N 5B7
Tel: (709) 364-3300

UNITED STATES METALS SERVICE CENTERS

WISCONSIN

Operating under the name
Russel Metals Williams Bahcall throughout Wisconsin

Appleton
975 North Meade Street,
54912-1054
Tel: (920) 734-9271

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

ARKANSAS

Operating under the name
JMS Russel Metals throughout 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
JMS Russel Metals
1455 Bloom Avenue,
42001
Tel: (270) 575-0308

TENNESSEE

Operating under the name
JMS Russel Metals throughout Tennessee

Jackson – Head Office
620 Old Hickory Boulevard,
Suite 400, 38305
Tel: (731) 984-8122

1320 E. Chester, 38301
(Specializing in plate processing)
Tel: (731) 423-3297

ALABAMA

Decatur
JMS Russel Metals
1312 Commerce Drive NW,
35601
Tel: (256) 308-0580

GEORGIA

Trenton
JMS Russel Metals
199 South Industrial Boulevard,
30752
Tel: (706) 657-5484

TEXAS

Fort Worth
Norton Metals
1350 Lawson Road,
76131-2723
Tel: (817) 234-0101

ENERGY TUBULAR PRODUCTS

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
R.R. #3,
Kerr Industrial Park (Aberfoyle),
N1H 6H9
Tel: (519) 763-1114

Sarnia, Ontario
1018 Prescott 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

San Diego, California
5299 Olive Hill Road,
Fallbrook, 92028
Tel: (760) 639-3632

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

STEEL DISTRIBUTORS

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
Tel: (514) 939-5555

UNITED STATES

Sunbelt Group
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

Book Value Per Share
Equity value divided by ending common 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 current quarterly dividend annualized.

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

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

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.

Free Cash Flow
Cash from operating activities before change in working capital less capital expenditures.

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 for period annualized over net assets employed.

RUSSEL METALS INC. DIRECTORY

HEAD OFFICE

1900 Minnesota Court, Suite 210, Mississauga, Ontario, Canada, L5N 3C9
Tel: (905) 819-7777 Fax: (905) 819-7409
E-mail: info@russelmetals.com Internet: www.russelmetals.com

BOARD OF DIRECTORS

Alain Benedetti
Corporate Director

James F. Dinning
Chairman of the Board
Western Financial Group

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.

CORPORATE GOVERNANCE

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

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

Sherri Mooser
Assistant Secretary
Mississauga

SHAREHOLDER INFORMATION

Stock Symbol: The Toronto Stock Exchange – RUS

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Stn.
Toronto, Ontario,
Canada M5C 2W9
Answer line: Toronto (416) 643-5500
Toll Free: 1-800-387-0825
E-mail: inquiries@cibcmellon.ca Internet: www.cibcmellon.ca

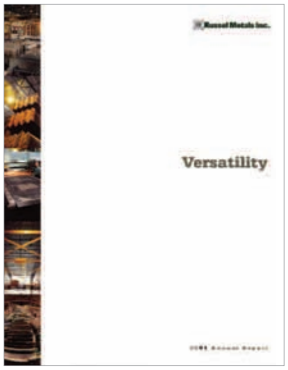
12 GREAT YEARS

Russel Metals Inc.
1997
FINANCIAL
REVIEW

1998
Russel Metals Inc.

Russel Metals Inc.
Meeting the
cycle
Challenge

Russel Metals Inc.
Strength

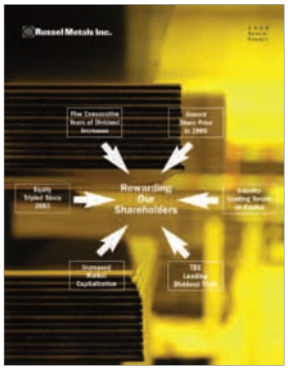

Russel Metals Inc.
Versatility

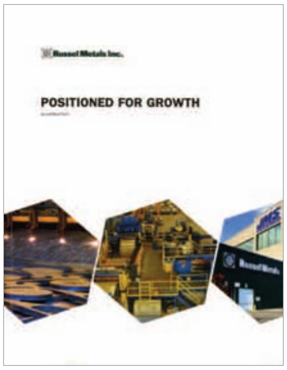
Russel Metals Inc.
Performance

Russel Metals Inc.
Our Model for Success

Russel Metals Inc.
2004

Russel Metals Inc.
05


Russel Metals Inc.
Rewarding Our Shareholders


Russel Metals Inc.
POSITIONED FOR GROWTH

Russel Metals
GREAT COMPANY
GREAT BALANCE SHEET
EASILY UNDERSTOOD

Russel Metals Inc.

1900 Minnesota Court, Suite 210
Mississauga, Ontario Canada L5N 3C9
T: 905.819.7777 F: 905.819.7409
info@russelmetals.com www.russelmetals.com