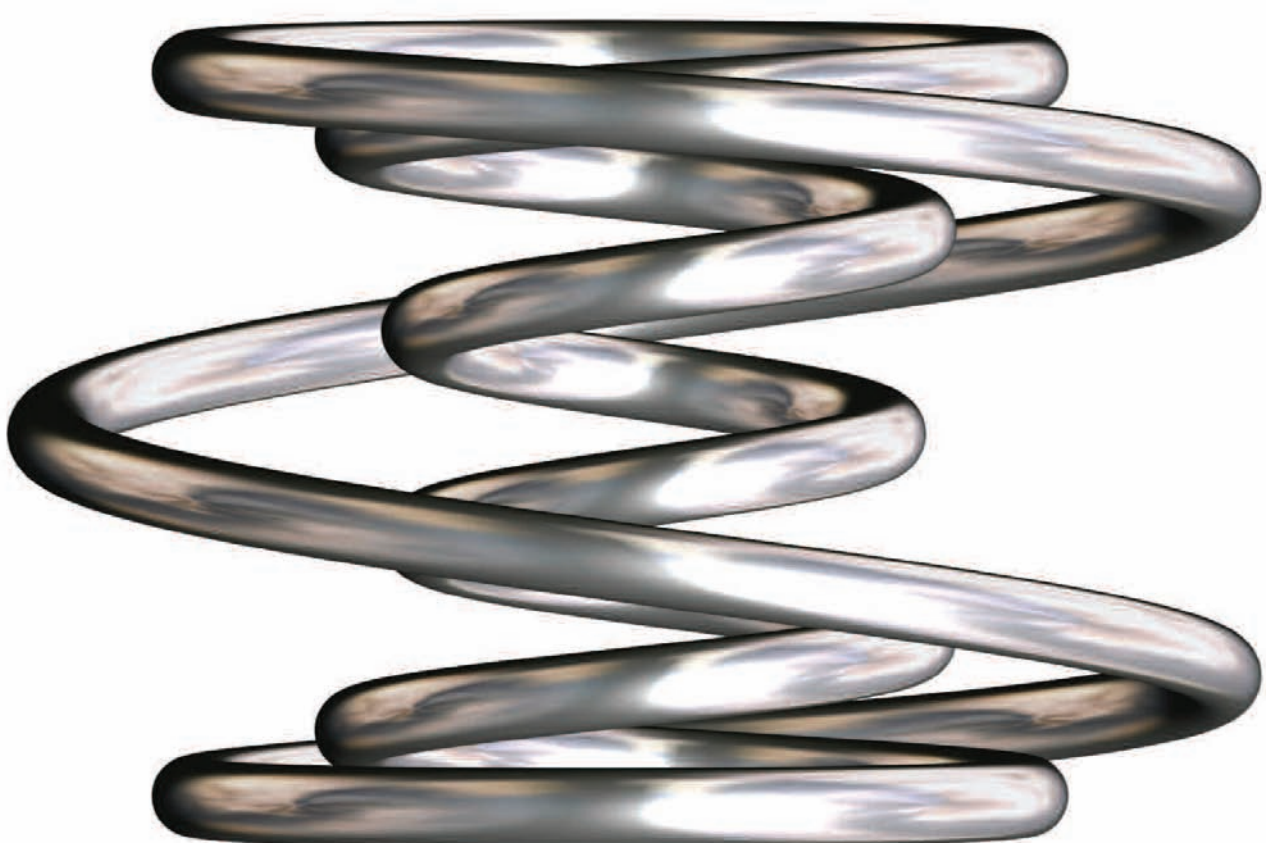
Russel Metals

2009 ANNUAL REPORT

resilient



CORPORATE PROFILE

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.

investing for the future

Cut-to-Length Line Winnipeg North, Manitoba

A new Braner cut-to-length line with a computer controlled hydraulic leveler has been installed at our coil processing and metal distribution facility in Winnipeg. This cut-to-length line allows us to serve the expanding needs of our customers in the Prairies.

New Facility Saskatoon, Saskatchewan

A new service center facility has been constructed consisting of a 45,000 square foot warehouse, an attached outside craneway and a 5,000 square foot office, all situated on 10 acres on the north side of Saskatoon. The facility replaces a smaller facility as we expand to serve the growing Saskatchewan market.

New Laser Regina, Saskatchewan

A new laser has been added to augment our existing processing capacity in our Regina facility. This has dramatically increased our capability in this rapidly growing market, allowing us to meet our customer production forecasts with greater flexibility and capacity.

Bar-Coding Jackson, Tennessee

Bar-coding systems are being installed across our metals service center locations. This system has allowed us to permanently reduce our operating costs by using technology to eliminate redundancy, improve accuracy and to allow real time data capture from the plant floor.

Stretcher Leveler Blytheville, Arkansas

A Red Bud stretcher leveler shear line has been installed at our Blytheville facility to process steel coils. This line provides cut product with superior flatness, which allows us to grow market share by targeting new customers within our existing markets, selling a larger array of products to our existing customers and servicing new geographic markets.

resilient

For the years ended December 31	2009	2008	2007	2006	2005
OPERATING RESULTS (millions)					
Revenues	**$ 1,971.8**	$ 3,366.2	$ 2,559.2	$ 2,692.1	$ 2,614.1
Net (loss) earnings	**(92.0)**	228.5	111.2	158.7	124.5
EBIT	**(130.2)**	355.2	176.8	250.2	202.5
Adjusted EBIT (Notes)	**63.9**(1)	392.9(1)	176.8	250.2	202.5
Adjusted EBIT as a % of revenue	**3.2%**	11.7%	6.9%	9.3%	7.7%
Adjusted EBITDA (Notes)	**89.6**(1)	416.3(1)	197.2	270.2	221.7
Adjusted EBITDA as a % of revenue	**4.5%**	12.4%	7.7%	10.0%	8.5%
Basic (loss) earnings per common share ($)	**$ (1.54)**	$ 3.67	$ 1.77	$ 2.65	$ 2.47
BALANCE SHEET INFORMATION (millions)					
Metals					
Accounts receivable	**$ 214.2**	$ 425.9	$ 337.2	$ 324.7	$ 356.1
Inventories	**517.9**	925.1	572.6	664.0	474.0
Prepaid expenses and other assets	**4.6**	7.6	4.7	3.8	1.3
Accounts payable and accruals	**(231.2)**	(393.7)	(272.3)	(262.8)	(291.2)
Net working capital – Metals	**505.5**	964.9	642.2	729.7	540.2
Fixed assets	**213.1**	230.4	210.4	170.9	162.3
Goodwill and intangibles	**28.4**	71.8	53.4	9.2	9.2
Net assets employed in metals operations	**747.0**	1,267.1	906.0	909.8	711.7
Other operating assets	**18.9**	19.4	20.4	21.5	22.0
Net income tax assets (liabilities)	**47.7**	(30.2)	(3.7)	(19.3)	(9.6)
Pension and benefit assets (liabilities)	**2.1**	0.7	(1.4)	(2.6)	(8.9)
Other corporate assets and liabilities	**(39.9)**	(38.0)	(43.5)	(20.8)	(17.4)
Total net assets employed	**$ 775.8**	$ 1,219.0	$ 877.8	$ 888.6	$ 697.8
CAPITALIZATION (millions)					
Bank indebtedness, net of (cash)	**$ (359.6)**	$ 20.0	$ (181.8)	$ (209.9)	$ (44.9)
Long-term debt (incl. current portion)	**342.1**	218.9	175.8	203.9	204.0
Total interest bearing debt, net of (cash)	**(17.5)**	238.9	(6.0)	(6.0)	159.1
Market capitalization	**1,058.5**	1,134.2	1,605.0	1,665.2	1,106.8
Total firm value	**$ 1,041.0**	$ 1,373.1	$ 1,599.0	$ 1,659.2	$ 1,265.9
OTHER INFORMATION (Notes)					
Common shareholders' equity (millions)	**$ 793.3**	$ 980.1	$ 883.8	$ 894.6	$ 538.7
Book value per share ($)	**$ 13.29**	$ 16.42	$ 14.01	$ 14.34	$ 10.63
Free cash flow (millions)	**$ 131.1**	$ 273.6	$ 123.7	$ 152.4	$ 123.1
Capital expenditures (millions)	**$ 18.6**	$ 22.2	$ 16.6	$ 27.6	$ 26.5
Depreciation and amortization (millions)	**$ 25.7**	$ 23.4	$ 20.4	$ 20.0	$ 19.2
Earnings multiple	**–**	5.2	14.4	10.1	8.8
Firm value as a multiple of adjusted EBIT	**16.3**(1)	3.9(1)	9.0	6.6	6.3
Firm value as a multiple of adjusted EBITDA	**11.6**(1)	3.3(1)	8.1	6.1	5.7
Interest bearing debt/adjusted EBITDA	**3.8**(1)	0.5(1)	0.9	0.8	0.9
Debt as a % of capitalization	**30%**	18%	17%	19%	27%
Market capitalization as a % of book value	**133%**	116%	182%	186%	205%
Return on capital employed	**8%**(1)	29%(1)	20%	28%	29%
COMMON SHARE INFORMATION					
Ending outstanding common shares	**59,698,690**	59,695,290	63,066,092	62,366,842	50,656,009
Average outstanding common shares	**59,696,743**	62,329,483	62,835,303	59,887,382	50,461,330
Dividend yield (Notes)	**5.6%**	5.3%	7.1%	6.0%	4.6%
Dividend per share (Notes)	**$ 1.00**	$ 1.00	$ 1.80	$ 1.60	$ 1.00
Share price – High	**$ 22.00**	$ 31.36	$ 34.47	$ 29.38	$ 22.75
Share price – Low	**$ 9.25**	$ 15.01	$ 22.75	$ 21.61	$ 13.40
Share price – Ending	**$ 17.73**	$ 19.00	$ 25.45	$ 26.70	$ 21.85

NOTES:

(1) Adjusted EBIT excludes inventory write-downs in the amount of $37.7 million in 2008 and $158.7 million in 2009 and $35.4 million for asset impairment in 2009.

(2) 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 57, under Glossary. See financial statements for GAAP earnings.

(3) 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.

Discussion with Anthony Griffiths, Chair of the Board and Brian Hedges, President and CEO

Q. Whenever there is a change in leadership in an organization, there is a concern with how the organization will adapt to the change. Brian, now that you have been CEO for eight months, please comment on the transition.

Brian The transition started long before my appointment. Through my 15 years with Russel Metals, strong and open lines of communication with all of our operations had already been established. The Board of Directors and Bud Siegel, our former CEO, paved the way for a smooth transition in 2008 when I assumed the COO role. Certainly the economic conditions in 2009 were difficult for any management team, new or old, but by all accounts the transition was as seamless as possible. Bud remains an advisor to the Company and his insight and knowledge of the industry have been invaluable.

Q. What impact did the tough business environment in 2009 have?

Brian The severe economic downturn caused an unprecedented drop in demand for our operations as our customers cut back their purchases to meet lower demand levels. Our managers quickly assessed this demand change and made the tough decisions necessary, including reducing their own compensation, reducing staff levels and, at the same time, trying to keep the morale in the operations as high as possible with such uncertainty. In addition to the demand drop, the speed of decline in steel prices created valuation issues and resulted in inventory write-downs greater than we have ever experienced. We lost money in our metals operations for the first time in our history after record earnings in 2008.

Q. The losses in 2009 were very severe. Is the worst over?

Brian We reported a loss of $1.54 per share in 2009, which is a huge swing from record profits of $3.67 in 2008. This year's results include inventory write-downs of $1.69 per share that are closely linked to buy decisions made in 2008. These write-downs were triggered by the magnitude and speed with which demand dropped and commodity prices declined. The asset impairment charge of $0.41 per share taken in the fourth quarter of 2009, resulted from a decline in the performance of our JMS and Norton operations in 2009 and conservative estimates in relation to the speed of the recovery.

BRIAN HEDGES
President and Chief Executive Officer

ANTHONY GRIFFITHS
Chair of the Board

Earnings before interest and taxes excluding write-downs were $59 million in 2009, the lowest recorded since 2003. Assuming stable steel pricing from producers, we believe that 2009 was a trough year and the 2010 earnings before interest and taxes will improve.

Q. Looking in the rear-view mirror, were there decisions you would have changed?

Brian We have a decentralized and entrepreneurial culture where the business unit managers are given responsibility for the buying decisions in their operation. The demand drop in our industry caught every participant by surprise, even conservative management teams like ours. If the market heats up again, like in 2008, we will be more conservative with our capital applied to the buy side. Taking this action would dampen peak earnings in order to lessen the downside risk. At the same time, we are committed to not damaging the entrepreneurial culture that has made our operations so successful in the past.

Q. With the change in economic conditions we have experienced, are you comfortable with the strong pay for performance bias in your compensation plans?

Anthony Our compensation plans are intended to reward employees for strong earnings performance, and to lower compensation costs while maintaining staff levels when earnings are under pressure. Our plans worked as expected since the amounts paid under the variable compensation programs dropped significantly in 2009 and enabled our operating expenses to be drastically reduced in reaction to the economic slowdown while minimizing the impact on employment levels. Only a few of our units reached their bonus threshold hurdles for 2009. We expect more units to meet their targets in 2010, resulting in larger bonuses.

Q. Your dividend was cut in 2009. What is the current thinking on the dividend?

Anthony We reduced the dividend in 2009 due to the unprecedented decline in our business levels. We are in a mature industry that over the cycle generates strong cash flows. Over the last six years, including the 2009 losses, we have paid out 60% of our net income in dividends. There will be years such as 2009, where the dividend exceeds our earnings.

Q. The Company issued $175 million in 7 year convertible debentures. What was the reasoning behind this decision?

Brian It is prudent to proactively tap the financial markets when funding is available to minimize cost of capital for the long term. The convertible debenture market was active for most of 2009, but in the fall this unique window for convertible debentures opened. What made it unique was that the premium between the market price of common shares and the share price for conversion into equity was priced at far wider spreads to the market than the norm. This brief market window enabled us to issue debt at favourable terms. This further strengthened our balance sheet and has positioned us to weather any additional downturn and react quickly to growth and acquisition opportunities that are presented.

We have no debt repayment scheduled until 2014, a strong cash on hand position of $360 million and $220 million of committed but undrawn lines of credit, all of which provide financial stability in these uncertain times.

Q. You mentioned acquisitions. What are your acquisition plans?

Brian For many years, our acquisition strategy was to build on the strength of our strongest asset, our Canadian metals service centers. We are one of the two largest service centers in Canada and have a strong presence in all regions. Currently, we intend to grow through acquisitions that expand either our product offerings or geographic coverage, primarily in the United States. Acquisitions in Canada would likely be product focused. Historically, we have been highly disciplined and of the view that the price paid for acquisitions must be justifiable over the course of a steel cycle; this view has not changed. In recent years, acquisition premiums escalated to levels that have proven to be imprudent in the current environment. We will continue to be patient and believe there will be attractive acquisition opportunities in 2010.

Q. What role did industry consolidation play in 2009 and what role will it play in the future?

Brian Consolidation of steel producers in North America was well advanced when the economy collapsed in the fourth quarter of 2008. Mill utilization rates were below 50% for much of 2009 as mills constrained their outputs to match demand levels. Production volumes this low have not been experienced in recent history. The discipline shown by the mills this past year has been much better than history would have suggested. We believe this was as a result of industry consolidation. There are mills that will face financial challenges, and so we would expect further mill consolidation in the next couple of years. We do not foresee North American steel mills acquiring service centers in the short term.

Q. What concerns you the most for 2010?

Brian The degree at which demand levels will recover is a major concern for 2010. Selling prices and gross margins per ton are returning to historical levels and we believe the majority of the inventory write-downs are behind us. Financial constraints on our customers' ability to grow are a secondary concern.

Q. What excites you the most for 2010?

Brian We acted quickly in very difficult times, successfully reduced costs and expect to return to profitability in 2010. With our financial strength we are well positioned to continue building shareholder value over the cycle and to grow both organically and by acquisitions.

Q. A movement to change the governance practices of public companies has gained momentum in the last several years. What are your views on this trend?

Anthony Russel Metals has ranked highly in the various publications ranking the governance practices of companies listed on the TSX. We have been very conservative in granting and pricing share options, have eliminated any potential conflicts of interest, and have clearly stated that we have a pay for performance culture weighted towards return on net assets or earnings per share.

Q. The Company has elected to have a shareholder advisory vote on your approach to executive compensation at its annual meeting in 2010. Why should shareholders vote in favour?

Anthony As detailed in the information circular, our total incentive payments for 2009 were dramatically reduced due to the poor earnings performance, which is as it should be in any effective pay for performance structure. In addition, both the Board and management took a 10% base pay reduction due to the economic conditions.

Our executive bonus plans are based on earnings per share, which we believe ultimately drives shareholder value. In 2008 we had record earnings, but by December the stock market had started to drop in anticipation of the economic downturn. Our bonuses for 2008 reflected the record earnings generated in 2008.

No executive bonuses were paid in 2009 because the earnings per share dropped below the bonus payment threshold of $1.00 per share. Bonuses will not be paid until earnings return to the threshold level. As a result of no bonuses being paid, there was a 75% drop in compensation for the CEO and CFO in 2009. To our knowledge, our compensation plan has been one of the most responsive plans on the TSX and we believe our shareholders will vote in favour of the Company's approach to executive compensation.

Q. The Annual Report cover features the word "resilient". Why?

Brian The North American spirit has to be resilient in 2010 and beyond to bounce back from the excesses that generated the financial crisis and the economic impact of the 2009 recession. Russel Metals is also resilient and has positioned itself not just to recover but to aggressively act on opportunities as we go forward. We refinanced the balance sheet to provide a financial platform for growth. Our managers acted quickly in the face of unprecedented volume and pricing declines and restored us to profitability. Our employees made sacrifices necessary to ensure we weathered the storm. Russel Metals is a truly resilient organization and 2010 will reflect it.

FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009, INCLUDING THE NOTES THERETO.

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

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

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

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

OVERVIEW

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

Our 2009 results reflect a significant drop in volumes and in steel pricing compared to 2008. A rapid and significant reduction in our customers' needs for steel impacted our ability to reduce inventory levels as steel pricing dropped precipitously, resulting in large inventory write-downs during the first half of 2009. Our results for 2009 represent a loss of $92 million compared to earnings of $229 million in 2008. Our results include a pretax inventory write-down of $159 million for 2009 and $38 million for 2008. Pricing bottomed out in most service center products in the second quarter of 2009, which eliminated inventory write-downs for the metals service center and steel distributors segments as well as improving gross margins in the metals service center segment for the second half of 2009. Excess inventories and weak demand for energy tubular products continued in the second half, resulting in additional write-downs and weak gross margins.

Our earnings for 2009 have been impacted by three items that we have adjusted in the following table to help the reader of this report better understand our operating results excluding specific items.

Earnings (loss) per common share		**2009**		2008
Net earnings (loss)	**$**	**(1.54)**	$	3.67
Inventory write-downs		**1.69**		0.39
Asset impairment		**0.41**		–
Gain on sale of property		**(0.07)**		–
Adjusted earnings	**$**	**0.49**	$	4.06

Proactive actions by our management team in late 2008 and early in 2009 in response to large declines in demand resulted in significantly reduced expenses. For 2009 compared to 2008, our operating expenses were reduced 35%, or $138 million, after adjusting for changes in exchange rates and our acquisition of Norton Metals in November 2008. This significant reduction in expenses was driven by lower bonuses and commissions, staff reductions and tight expense management put in place during the first quarter of 2009.

Our metals service centers segment had a volume decline of approximately 32% for 2009, compared to 2008. This decline is consistent with statistics reported for the North American industry by the Metals Service Center Institute. During the second half of 2009, our metals service centers replaced inventory at levels consistent with sales volumes. The purchase of inventory at lower prices in the second half resulted in improved margins. Prices stabilized and price increases have been announced in most products into the first quarter of 2010.

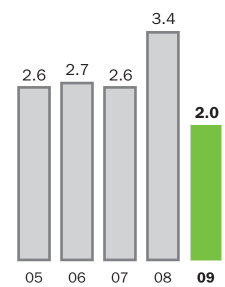
Our energy tubular products segment volumes have declined in 2009 from 2008 due to low natural gas prices which reduced drilling activity and reduced capital spending by customers of this segment. We took inventory write-downs of $11 million in the energy tubular products segment in the second half of 2009 due to price declines caused by very low drilling activity and excess inventory of certain products in the industry. Pricing appears to have stabilized heading into 2010.

Our steel distributors segment has been impacted by the same conditions as our metals service centers. We have reduced our inventory to reflect the lower demand of our customers.

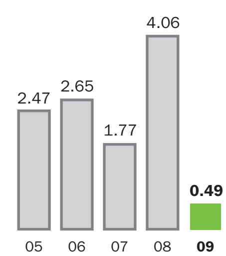
INVENTORY WRITE-DOWNS

We have taken write-downs of inventory to reflect net realizable value. Net realizable value is an estimate of future selling price less costs to sell, which is higher than current replacement cost. In addition, we are required to reverse write-downs to original cost if the net realizable value increases prior to the sale of the inventory. Gross margins should improve to historical levels in 2010 as the more expensive inventory is sold, assuming prices remain stable or improve.

TOTAL REVENUES
$ billions



ADJUSTED EARNINGS PER SHARE
$ per share



Inventory write-downs (reversals) and as a percentage of pre-write-down inventories were as follows.

	Quarters Ended									
(millions, except percentages)	**Dec. 31 2009**		**Sept. 30 2009**		**June 30 2009**		**Mar. 31 2009**		Dec. 31 2008	
Metals service centers	**$ –**	**–**	**$ –**	**–**	**$ 2**	**1%**	**$ 29**	**12%**	$ 7	2%
Energy tubular products	**8**	**3%**	**3**	**1%**	**55**	**13%**	**16**	**3%**	9	2%
Steel distributors	**(3)**	**–**	**–**	**–**	**–**	**–**	**49**	**27%**	22	9%

SUMMARIZED FINANCIAL INFORMATION

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

2009	**Quarters Ended**				**Year Ended**
(in millions, except per share data and volumes)	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Dec. 31**
Revenues	**$ 642.3**	**$ 462.5**	**$ 434.3**	**$ 432.7**	**$ 1,971.8**
Earnings (loss) from operations	**(80.9)**	**(44.2)**	**22.6**	**2.4**	**(100.1)**
Net earnings (loss)	**(55.0)**	**(24.6)**	**12.8**	**(25.2)**	**(92.0)**
Basic earnings (loss) per common share	**$ (0.92)**	**$ (0.41)**	**$ 0.21**	**$ (0.42)**	**$ (1.54)**
Diluted earnings (loss) per common share	**$ (0.92)**	**$ (0.41)**	**$ 0.21**	**$ (0.42)**	**$ (1.54)**
Market price of common shares					
High	**$ 22.00**	**$ 16.50**	**$ 18.52**	**$ 18.51**	**$ 22.00**
Low	**$ 9.25**	**$ 9.90**	**$ 12.87**	**$ 15.30**	**$ 9.25**
Shares outstanding end of quarter	**59,695,290**	**59,697,290**	**59,697,290**	**59,698,690**	**59,698,690**
Number of common shares traded	**25,032,976**	**24,680,061**	**19,127,659**	**11,331,917**	**80,172,613**

2008	Quarters 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	29.2	78.8	91.5	29.0	228.5
Basic earnings per common share	$ 0.46	$ 1.25	$ 1.45	$ 0.48	$ 3.67
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
Shares outstanding end of quarter	63,161,792	63,256,590	61,066,092	59,695,290	59,695,290
Number of common shares traded	18,818,832	19,622,252	19,787,735	20,125,919	78,354,738

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 (revenues minus cost of sales) as a percentage of revenues for the operating segments are also shown. The gross margin percentages disclosed for 2007 have not been restated for the new accounting standard on inventory implemented on January 1, 2008, which would have reduced them (see changes in accounting policy). 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)		2009		2008		2007	2009 Change as a % of 2008	2008 Change as a % of 2007
Segment Revenues								
Metals service centers	**$**	**1,094.7**	$	1,833.0	$	1,435.2	**(40%)**	28%
Energy tubular products		**624.1**		1,070.8		677.2	**(42%)**	58%
Steel distributors		**244.5**		450.7		436.1	**(46%)**	3%
Other		**8.5**		11.7		10.7		
	$	**1,971.8**	$	3,366.2	$	2,559.2	**(41%)**	32%
Segment Operating Profits Excluding Inventory Write-down								
Metals service centers	**$**	**17.3**	$	192.8	$	101.9	**(91%)**	89%
Energy tubular products		**34.8**		145.6		54.5	**(76%)**	167%
Steel distributors		**18.0**		77.6		39.1	**(77%)**	98%
Corporate expenses		**(13.2)**		(21.2)		(18.6)	**38%**	(14%)
Other		**1.7**		3.3		2.4		
Operating profits	**$**	**58.6**	$	398.1	$	179.3	**(85%)**	122%
Inventory Write-down, net								
Metals service centers	**$**	**30.4**	$	6.8	$	–		
Energy tubular products		**81.9**		9.1		–		
Steel distributors		**46.4**		21.8		–		
	$	**158.7**	$	37.7	$	–		
Segment Operating Profits (Loss)								
Metals service centers	**$**	**(13.1)**	$	186.0	$	101.9	**(107%)**	83%
Energy tubular products		**(47.1)**		136.5		54.5	**(135%)**	150%
Steel distributors		**(28.4)**		55.8		39.1	**(151%)**	43%
Corporate expenses		**(13.2)**		(21.2)		(18.6)	**38%**	(14%)
Other		**1.7**		3.3		2.4		
Operating profits (loss)	**$**	**(100.1)**	$	360.4	$	179.3	**(128%)**	101%
Segment Gross Margin as a % of Revenues Excluding Inventory Write-down								
Metals service centers		**18.4%**		23.9%		24.1%		
Energy tubular products		**12.7%**		22.4%		14.4%		
Steel distributors		**13.7%**		22.3%		13.5%		
Total operations		**16.4%**		23.4%		19.9%		
Segment Operating Profits as a % of Revenues Excluding Inventory Write-down								
Metals service centers		**1.6%**		10.5%		7.1%		
Energy tubular products		**5.6%**		13.6%		8.0%		
Steel distributors		**7.4%**		17.2%		9.0%		
Total operations		**3.0%**		11.8%		7.0%		

Note: see Change in Accounting Policy impacting comparability of 2007 gross margin percentages.

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 30,000 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 included in our JMS Russel Metals group. 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 statement of earnings includes revenues and operating earnings of the JMS Metal Services group 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 2009, 2008 and 2007 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle. Steel prices increased consistently month over month in 2008 until October 2008. Starting in October 2008, steel pricing and demand declined as a result of the financial and economic crisis, which negatively impacted 2009 results. 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, resource and construction segments of the Canadian economy. Tons shipped for 2009 were approximately 32% less than for 2008, and 2008 tons shipped were approximately 3% less than for 2007. Based on data from the Metal Service Center Institute, the Canadian service center industry decline in shipments for 2009 was 26% and for the U.S. was 37%. This level of decline in demand is unprecedented.

Canadian service centers, which represent the majority of our metals service centers operations, have operations in all regions of Canada and are particularly affected by regional general economic conditions. Our large market share and our diverse customer base of approximately 15,000 customers suggest that our results should mirror the performance of the regional economies of Canada.

Our U.S. operations have approximately 15,000 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 change in the Canadian dollar in 2009 versus 2008 has increased revenues and losses for our U.S. operations translated to Canadian dollars. Revenues and profits or losses of our U.S. operations reported for 2009 are converted at $1.1415 per US$1 compared to $1.0671 per US$1 for the same period of 2008. The exchange rate at December 31, 2009, used to translate the balance sheet, was 1.0466.

Our Canadian operations were affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar has a short-term impact on inventory pricing.

We believe that the recent strength of the Canadian dollar has or will impact our customers who sell product outside of Canada resulting in lower volumes over longer periods.

c) Metals service centers segment results – 2009 compared to 2008

Revenues for 2009 declined 40% compared to 2008. The decline increases to 43% when we remove revenues generated by Norton, which we acquired in late 2008, and foreign exchange movement. Overall tons shipped in metals service centers were approximately 32% lower than those shipped in 2008. Tons shipped have been consistent since December 31, 2008. The average selling price of metal in 2009 was approximately 16% lower than the average in 2008. Average selling price declined every quarter from December 2008 with the largest decline occurring during the first half of 2009. Prices in most products stabilized in the third quarter of 2009. Average selling prices at the end of 2009 are similar to those at the end of 2007, prior to the price increases in 2008.

Gross margin as a percentage of revenues, excluding inventory write-downs, was 18.4% for 2009 compared to 23.9% for 2008. Pricing pressure as a result of weak demand from our customers, selling price declines led by price reductions from the mills and higher priced inventory on hand were all factors contributing to lower margins in 2009. The average cost of inventory declined each month in 2009 as our purchases continued to be at levels below our average cost of inventory. Gross margins for 2008 were elevated due to inventory holding gains.

Our average revenue per invoice for 2009 was approximately $1,409 compared to $2,133 for 2008, reflecting smaller orders in tons and lower selling prices. In 2009, we handled approximately 3,102 transactions per day compared to 3,437 per day for 2008, a drop of 10%.

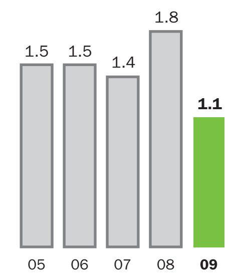
Operating expenses in 2009 were approximately $70 million, or 28% lower than those in 2008, after adjusting for the expenses of Norton Metals and the impact of the U.S. dollar exchange rate on our operations located in the U.S. Staff reductions and pay cuts implemented in the first quarter of 2009, as well as a significant reduction in bonuses and commissions based on 2009 weak results, reduced expenses for 2009. In addition, freight costs declined with demand and other volume sensitive plant expenses were reduced.

Metals service centers operating profits for 2009 of $17 million, excluding inventory write-downs of $30 million, were $176 million lower than 2008. The decrease was due to the dramatic decline in volumes and selling prices when compared to 2008, which had record selling prices and inventory holding gains.

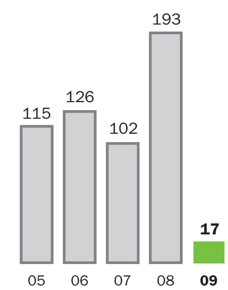
d) Metals service centers segment results – 2008 compared to 2007

Revenues for 2008 increased 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 in 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.

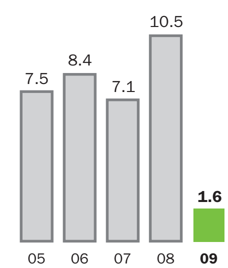
REVENUES
$ billions



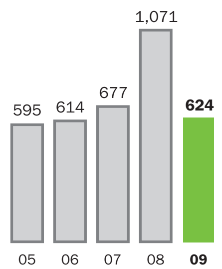
ADJUSTED OPERATING PROFITS
$ millions



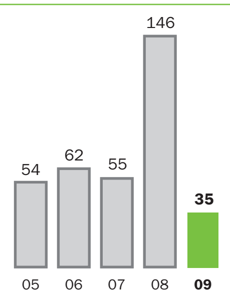
OPERATING PROFITS AS A % OF REVENUE



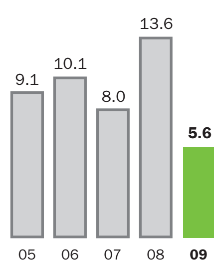
REVENUES
$ millions



ADJUSTED OPERATING PROFITS
$ millions



OPERATING PROFITS AS A % OF REVENUE



Overall tons shipped, excluding JMS Russel Metals, for 2008 were approximately 3% lower than 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, excluding inventory write-downs, was 23.9% 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%. Our gross margin for 2008 was impacted by write-downs of inventory to net realizable values during 2008 of $7 million.

Our 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 to higher delivery costs due to the spike in fuel costs.

Metals service centers operating profits for 2008 of $193 million, excluding inventory write-downs of $7 million, were $91 million higher than 2007, mainly related to higher gross margins and the acquisition of JMS Russel Metals.

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 United States. Our business units are clustered in Alberta in Canada and Colorado in the U.S. A large portion of our inventories are located in third party warehouses ready for distribution to customers in any region of North America. In addition, we operate from five Canadian and two U.S. facilities. We purchase our 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 2009, 2008 and 2007 is found in the sections that follow.

Natural gas prices are one of the factors that can impact rig count and subsequent drilling activities, particularly in Western Canada. Rig activity affects demand for our products. Natural gas prices declined significantly in the fourth quarter of 2008 and fell further in the first quarter of 2009. Gas prices have not improved enough to increase drilling activity. The price of oil has increased; however, the movement has not yet resulted in increased activity in the oil sands. Several positive announcements by oil sands producers in 2010 are expected to increase activity.

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. Both Canadian and U.S. governments imposed duties on certain Chinese pipe effective at the beginning of 2008. In April 2009, the U.S. government announced another review related to additional sizes and grades of Chinese pipe. These trade actions tend to reduce imports of these products as higher prices are paid at the time of import. These trade actions have helped to stabilize market prices for OCTG product.

Our Canadian operations were affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movement in the Canadian dollar impacts the cost of inventory and cost of sales.

Drilling related to oil and natural gas in Western Canada usually peaks during the period from October to March. Demand improved slightly during the fourth quarter due to seasonality but remains at levels significantly below those seen in the past few years.

c) Energy tubular products segment results – 2009 compared to 2008

Revenues decreased 42% for 2009 compared to 2008. The decline was driven by lower demand, due to low natural gas pricing impacting drilling activities, and lower steel prices in 2009. Capital spending related to the oil sands has also been reduced due to lower oil pricing.

Gross margin as a percentage of revenue for 2009, excluding inventory write-downs, was 12.7% compared to 22.4% for 2008. The average cost of our inventory, excess pipe inventory in the industry and weak demand have made the markets we service very competitive, resulting in lower margins in 2009. Gross margin in 2008 was high due to demand and price increases.

The variable cost structure in these operations resulted in a 53% improvement in operating expenses for 2009 compared to 2008. Bonuses, commissions and delivery costs were all significantly reduced.

This segment generated an operating profit of $35 million for 2009, excluding inventory write-downs of $82 million. Operating profits in 2009 were down significantly due to lower volumes and selling prices. Volumes were impacted by lower drilling activity.

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

Revenues increased 58% to $1.1 billion in 2008 compared to 2007. Revenues were 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 for the last half of 2008.

Gross margin of $231 million for 2008 was $133 million higher than 2007. The higher margin related to increased volumes, higher selling prices and holding gains on inventory. Our gross margin was reduced by a $9 million write-down in inventory in 2008.

Operating expenses were higher by $51 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 for 2008 increased to $146 million, excluding inventory write-downs, compared to 2007 operating profits of $55 million. The increase in operating profits was due to higher volumes and steel prices.

STEEL DISTRIBUTORS

a) Description of operations

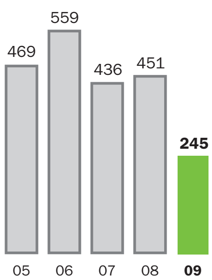
Our steel distributors act as master distributors selling steel in large volumes to other steel service centers and equipment manufacturers mainly on an "as is" basis. Our U.S. operation processes some coil for its customer base at its cut-to-length facility in Houston, Texas. Our steel distributors 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; however, product volumes vary based on the economy and trade actions in North America. Our operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coils.

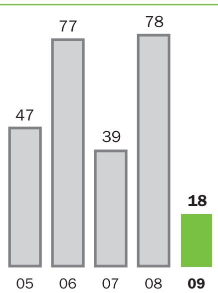
b) Factors affecting results

The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted 2009, 2008 and 2007 is found in the sections that follow.

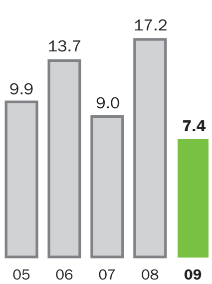
REVENUES
$ millions



ADJUSTED OPERATING PROFITS
$ millions



OPERATING PROFITS AS A % OF REVENUE



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. Trade actions currently exist on plate and pipe from specified countries. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability.

Our Canadian operations were affected by the U.S. dollar exchange rate since some products are sourced outside of Canada and are priced in U.S. dollars. Movements in the Canadian dollar can result in some products that we have purchased being subsequently available in the marketplace at a lower cost.

The Financial Instruments accounting standard adopted on January 1, 2007 considers transactions between a buyer and a seller in a currency that is not the functional currency of either party to be a foreign currency derivative, which creates timing differences on foreign exchange. 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. These gains or losses are recorded in operating expenses and will reverse in future periods.

Availability of steel that is sourced off shore fluctuates significantly, mainly driven by price and product demand 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. Imports in 2009 were significantly lower than 2008 due to excess inventory in North America and lack of demand as customers have been destocking inventory.

c) Steel distributors segment results – 2009 compared to 2008

Revenues decreased 46% in 2009 compared to 2008 mainly due to lower volumes and prices. Our steel distributors were impacted by lower demand from their customers due to inventory destocking. The products carried by this segment were impacted by significant price declines resulting in inventory write-downs of $49 million in the first quarter of 2009. By the fourth quarter of 2009 pricing improved such that $3 million of the previous write-down was reversed.

Gross margin as a percentage of revenues, excluding inventory write-downs, was 13.7% for 2009. Gross margin percentages are at levels experienced prior to 2008.

Operating expenses were 32% lower for 2009 compared to 2008, mainly related to lower variable compensation.

Operating profit for 2009 was $18 million, excluding inventory write-downs, compared to operating profit of $78 million for 2008. The decline mainly relates to lower volumes and steel prices.

d) Steel distributors segment results – 2008 compared to 2007

Steel distributors revenues increased 3% to $451 million for 2008 compared to 2007 due to 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 22.3% for 2008, excluding inventory write-downs, 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 $22 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 declined in value by the time the steel arrived.

Operating expenses were $3 million higher for 2008 compared to 2007, mainly related to higher variable compensation based on profitability in 2008.

Operating profits for 2008 increased to $78 million, excluding inventory write-downs, compared to $39 million for 2007, due to the impact of higher steel pricing.

CORPORATE EXPENSES – 2009 COMPARED TO 2008 AND 2007

Corporate expenses decreased $8 million for 2009 compared to 2008. The decrease in expenses mainly related to no bonus expense, a result of not meeting our earnings per share performance criteria, and decreased stock compensation as fewer options were issued in 2009. This was offset by higher bank standby fees due to us renegotiating and increasing our bank facility in 2009. In the first quarter of 2009, our Board of Directors and all corporate employees took a temporary 10% reduction in base compensation. The reduction was restored during the fourth quarter for all employees excluding the CEO and the CFO. The reduction remained in effect for the Board of Directors as well.

Corporate expenses increased $3 million for 2008 compared to 2007. The increase in expenses in 2008 mainly related to increased bonuses based on higher earnings.

OTHER – 2009 COMPARED TO 2008 AND 2007

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues have declined due to lower volumes of metallurgical coal and potash handled in 2009. Operating profits for 2009 were weaker than those recorded in 2008 and 2007 due to lower volumes.

CONSOLIDATED RESULTS – 2009 COMPARED TO 2008 AND 2007

Operating profits from operations excluding inventory write-downs were $59 million for 2009, compared to $398 million in 2008 and $179 million in 2007. Lower volumes and pricing in all three segments reduced operating profits significantly for 2009. We recorded $159 million in inventory write-downs in 2009 and $38 million in 2008. Proactive cost containment and pay reductions taken by our employees improved results for the second half of 2009.

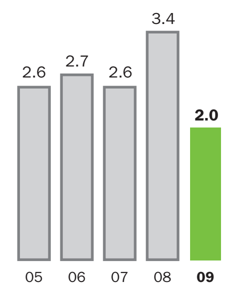
GAIN ON SALE OF PROPERTY

During the second quarter of 2009 we sold a property in Saskatchewan for a gain of $4 million. This branch built a larger facility in 2009.

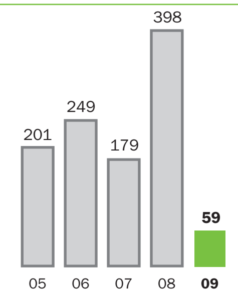
UNREALIZED LOSS ON INVESTMENT

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 million would not be repaid when due as a result of a disruption in the Canadian market for asset-backed commercial paper. A restructuring was completed in January 2009 and we exchanged our old notes for several series of new notes with longer maturities. Although there have been some isolated trades, quoted market values for this investment are not available; thus we have used a discounted cash flow technique to obtain an estimated fair value. Based on this assessment, a fair value increase of $1 million was recorded in 2009 compared to a $5 million write-down in 2008. 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 are rated investment grade; the principal return on the A-2 notes will be 88% and on the B and C notes will be 0%; the notes will be interest bearing; interest received will be net of costs and interest on the notes other than the A-1 notes will not be paid until 2017. During 2009, $1 million of pre-restructuring interest was received, which reduced the asset. We currently estimate that the fair value of these notes is $4 million. As more information and a representative market for the notes become available, we expect that the fair value will change.

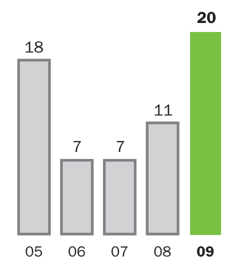
TOTAL REVENUES
$ billions



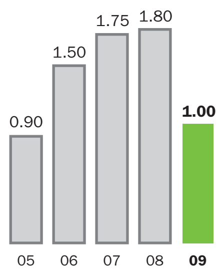
ADJUSTED TOTAL OPERATING PROFIT
$ millions



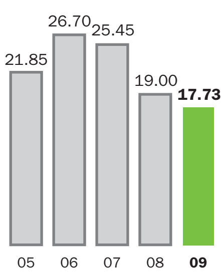
INTEREST EXPENSE
$ millions



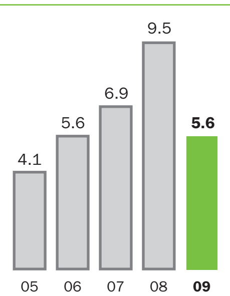
DIVIDENDS PAID PER COMMON SHARE
$ per share



COMMON SHARE PRICE
$ per share



DIVIDEND YIELD
%



IMPAIRMENT OF ASSETS

We review the carrying value of our goodwill annually in the fourth quarter or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. Recoverability of the identified asset groups was tested using future cash flows based on management's estimates of results for these operations considering current and anticipated future market conditions. Due to significant volume and price declines in the U.S. service center industry in 2009 and limited improvement in demand levels since then, the forecast resulted in an impairment of asset values within the JMS Russel Metals group.

An impairment loss of $35 million was allocated as follows:

(millions)		
Buildings	$	1
Intangibles – customer lists		1
Goodwill		33
	$	35

INTEREST EXPENSE

Consolidated interest expense for 2009 increased by $9 million, to $20 million, compared to 2008. The increase in interest expense mainly related to higher average borrowings in 2009, lower interest rates on cash on deposit and $4 million of interest expense on the convertible debentures that we issued in October 2009. Long-term debt interest expense for 2010 will increase by approximately $12 million as a result of the convertible debentures. The debt issue costs and the accretion of equity related to the convertible debentures are recorded as part of interest expense. See Cash, Debt and Credit Facilities.

INCOME TAXES

In 2009, we recorded a recovery of income taxes of $58 million. Our income tax recovery rate of 38.8% is slightly higher than our normalized effective income tax rate mainly due to a large portion of our losses being in the U.S., which had a higher effective income tax rate, the utilization of unrecorded capital losses to offset the gain on sale of a property and a write-down of goodwill of which a portion is not tax deductible. We estimate our normalized effective income tax rate to be 33% for 2010.

NET EARNINGS (LOSS)

Net loss for 2009 was $92 million compared to net earnings of $229 million for 2008. Basic loss per common share for 2009 was $1.54 compared to earnings of $3.67 per common share in 2008. The reduction in earnings mainly related to inventory write-downs, volume and price declines in 2009 and the asset impairment recorded.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2009 was 59,696,743 compared to 62,329,483 for 2008. The decrease related to the purchase of common shares in the second half of 2008 under a normal course issuer bid. As at December 31, 2009 and February 18, 2010, we had 59,698,690 common shares outstanding.

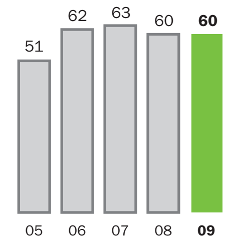
We paid common share dividends of $60 million in 2009 compared to $115 million in 2008. The decrease relates to our reduced dividend rate and fewer shares outstanding. We paid cash dividends of $1.00 per share for 2009 compared to $1.80 per share plus a supplemental dividend of $0.05 per share for 2008.

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 $255 million available for restricted payments. The basket is adjusted by 50% of net earnings or losses on a quarterly basis unless accumulated losses since March 2004 exceed earnings, in which case 100% of losses are deducted. Share buybacks deplete the basket and proceeds from shares issued increase the basket.

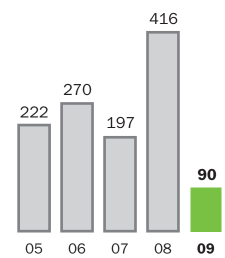
Our ability to pay dividends is also impacted by covenants in our syndicated bank facility. In particular, we must maintain a fixed charge coverage ratio of not less than 1.1 to 1, and this ratio includes dividends that we declare. The fixed charge coverage ratio is measured at the end of each fiscal 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 the trailing 12-month period, (ii) the dividend declared in the next following quarter multiplied by four, and (iii) in certain circumstances capital expenditures during the 12-month period. The denominator consists principally of our interest expense, scheduled principal repayments on long-term debt, if applicable, and the principal component of payments under capital leases.

On May 1, 2009, we increased and amended our credit facility with our syndicate of banks to allow us to exclude up to $200 million of inventory write-downs plus any write-down of goodwill and intangibles currently on the balance sheet as non-cash charges from the trailing 12-month earnings. The exclusion related to write-downs after January 1, 2009. As at December 31, 2009, our fixed charge coverage ratio, excluding $159 million of inventory write-downs and $34 million of impairment of goodwill and intangibles, was 3.5 to 1. In addition, if we utilize any portion of the adjustment for excluded items, the payment of any dividend will be subject to our having excess borrowing base availability of not less than four times the declared dividend. We do not believe this requirement will restrict our ability to pay a dividend as our borrowing base, which is based on our levels of accounts receivable and inventories, has traditionally been in excess of borrowings.

COMMON SHARES OUTSTANDING
millions



ADJUSTED EBITDA
$ millions



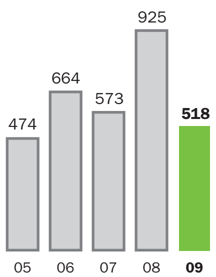
EBITDA

The following table shows the reconciliation of net earnings (loss) to EBITDA and adjusted EBITDA:

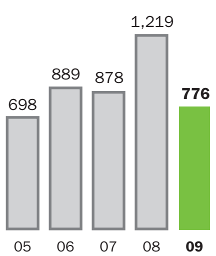
(millions)		**2009**		2008
Net earnings (loss)	**$**	**(92.0)**	$	228.5
Provision for (recovery of) income taxes		**(58.4)**		116.1
Interest expense, net		**20.2**		10.6
Earnings (loss) before interest and income taxes (EBIT)		**(130.2)**		355.2
Inventory write-downs, net		**158.7**		37.7
Asset impairment		**35.4**		–
Adjusted EBIT	**$**	**63.9**	$	392.9
Depreciation and amortization	**$**	**25.7**	$	23.4
Earnings (loss) before interest, income taxes, depreciation and amortization (EBITDA)	**$**	**(104.5)**	$	378.6
Adjusted EBITDA	**$**	**89.6**	$	416.3

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.

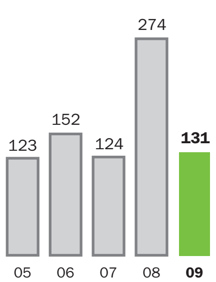
INVENTORIES
$ millions



NET ASSETS EMPLOYED
$ millions



FREE CASH FLOW
$ millions



CAPITAL EXPENDITURES

Capital expenditures were $19 million for 2009 compared to $22 million for 2008. Depreciation expense was $24 million in 2009 and $22 million in 2008. In 2009, we replaced our Saskatoon facility with a larger facility for which we expended $6 million. The sale of the current smaller facility for proceeds of $5 million closed in May 2009.

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, 2009, we had cash of $360 million compared to net bank indebtedness of $20 million at December 31, 2008. Our net cash position increased $380 million in the year. The major contributing factors for the increase were $167 million generated from the issue of convertible debentures, $336 million generated from reductions in working capital offset by $60 million in dividend payments.

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 comprise our largest liquidity risks. Our customers were impacted by the current economic climate and thus it is possible to experience increased days outstanding for accounts receivable and additional bad debts, which can affect the timing of collections. Similarly, the current environment results in less demand for our products, which resulted in higher inventory levels and lower inventory turns. Total assets were $1.4 billion at December 31, 2009 and $1.8 billion at December 31, 2008. Total assets excluding cash were $1.1 billion at December 31, 2009 and $1.7 billion at December 31, 2008. At December 31, 2009, current assets excluding cash represented 73% of our total assets excluding cash, versus 80% at December 31, 2008. The reduction mainly related to lower accounts receivable and inventory.

Decreases in accounts receivable and inventory generated $398 million of cash in 2009, driven by lower volumes and steel prices. Accounts payable and accrued liabilities utilized cash of $157 million related to the payment of trade payables.

Cash generated from operating activities was $291 million for 2009 compared to $57 million in 2008. In 2008, the cash flow was from earnings net of a significant increase in working capital to support higher prices; whereas in 2009 the cash flow came from lower working capital net of operating losses. A reduction in working capital as earnings decline is consistent with our model.

Cash generated from inventory was $198 million in 2009, mainly related to reduced tons on hand in all three segments. Inventories represented 36% of our total assets at December 31, 2009 and 53% at December 31, 2008.

Inventory by Segment

(millions)		Dec. 31 2009		Sept. 30 2009		June 30 2009		Mar. 31 2009		Dec. 31 2008
										Quarters Ended
Metals service centers	$	**170**	$	**164**	$	**178**	$	**214**	$	306
Energy tubular products		**286**		**321**		**374**		**483**		399
Steel distributors		**62**		**73**		**92**		**130**		220
Total operations	$	**518**	$	**558**	$	**644**	$	**827**	$	925

Inventory turns are calculated using annualized quarterly cost of sales dollars, excluding net inventory write-downs, divided by inventory in dollars at the end of the quarter.

Inventory Turns

	Dec. 31 2009	Sept. 30 2009	June 30 2009	Mar. 31 2009	Dec. 31 2008
					Quarters Ended
Metals service centers	**4.4**	**4.9**	**5.0**	**5.3**	4.5
Energy tubular products	**1.9**	**1.2**	**1.2**	**1.6**	2.4
Steel distributors	**2.6**	**2.6**	**2.0**	**2.4**	1.8
Total operations	**2.8**	**2.5**	**2.4**	**2.7**	2.9

Our metals service centers have fewer tons of inventory priced at a lower average price at December 31, 2009. Inventory has been reduced to align with lower sales volumes. The metals service centers turns are at a high level considering the decline in demand experienced. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns based on tons for the three months ended December 31, 2009 for U.S. service centers and for Canadian service centers were 4.8 and 4.6 turns, respectively. Based on tons, our turns were approximately 5.6 for the three months ended December 31, 2009.

Our energy tubular products operations consistently reduced inventory during 2009. The financial crisis and lower oil and gas prices drastically reduced pipe demand. This resulted in our energy tubular products units having more inventory than the current environment supports. In addition, the low volume of sales during 2009 reduced turns even though inventory levels at December 31, 2009 were down by $197 million since March 31, 2009.

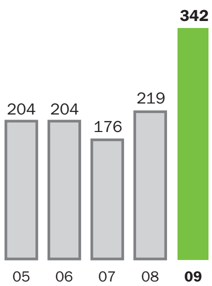
Our steel distributors segment reduced inventory on hand during 2009 to levels more in line with current customer demand. Significant inventory write-downs of plate and structural products in the first quarter of 2009 reduced the average cost to approximate net realizable value.

As a result of lower revenues and selling prices and continued good collections, accounts receivable generated cash of $200 million during 2009. We remain cautious concerning our customers' ability to access funding to operate or grow their businesses over this current business cycle. Accounts receivable represented 15% of our total assets at December 31, 2009 and 25% at December 31, 2008.

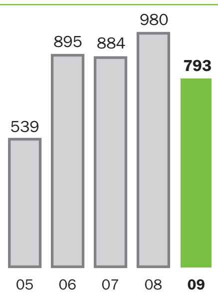
During 2009, we made income tax payments of $35 million compared to payments of $89 million in 2008. In 2009, we also received refunds of $8 million. The 2009 payments of $35 million included $28 million related to 2008. Our current income tax asset of $53 million mainly represents refunds receivable for losses to be carried back against prior years' taxable income.

During 2009, we utilized cash of $19 million for capital expenditures and $60 million for common share dividends. During 2008, we utilized cash of $22 million for capital expenditures and $115 million for common share dividends. Proceeds from the sale of assets in 2009 were $6 million.

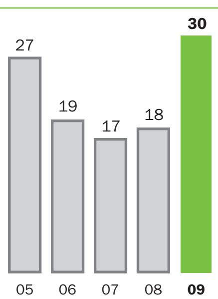
INTEREST BEARING DEBT
$ millions



SHAREHOLDERS' EQUITY
$ millions



DEBT TO CAPITALIZATION
%



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)		**2009**		2008
Cash from (used in) operating activities before working capital	**$**	**(44.4)**	$	258.1
Purchase of fixed assets		**(18.6)**		(22.2)
	$	**(63.0)**	$	235.9
Non-cash inventory write-down, net		**158.7**		37.7
Non-cash asset impairment		**35.4**		–
	$	**131.1**	$	273.6

Free cash flow may be useful in assessing our ability to pay dividends, reduce outstanding debt and fund working capital growth. Free cash flow has been adjusted to remove non-cash inventory write-downs from operating activities. Free cash flow is a non-GAAP measure regularly used by investors and analysts to evaluate companies.

CASH, DEBT AND CREDIT FACILITIES

Debt

(millions)		**Dec. 31, 2009**		Dec. 31, 2008
Long-Term Debt				
6.375% US$175 million Senior Notes due March 1, 2014	**$**	**180**	$	210
7.75% $175 million convertible debentures due September 30, 2016		**156**		–
Capital leases				
Arkansas development bonds, maturing 2014 to 2017		**6**		7
Other		**–**		2
		342		219
Current portion		**1**		1
	$	**341**	$	218
Obligations under cross currency swaps				
Foreign exchange difference on US$100 million	**$**	**27**	$	9
Settlement value to terminate swaps		**8**		13
	$	**35**	$	22

Changes in the value of the U.S. Senior Notes and the swaps are recorded in other comprehensive income net of income taxes.

In October 2009, we issued $175 million of 7.75% convertible unsecured subordinated debentures for net proceeds of $167 million. The convertible debentures mature on September 30, 2016, and interest is payable semi-annually on March 31 and September 30. Each debenture is convertible into common shares at the option of the holder at any time on or prior to the business day immediately preceding the maturity date or a redemption date, at a conversion price of $25.75 per common share. On or after September 30, 2015, the convertible debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest. We have the right to repay the outstanding principal, on maturity or redemption, through the issuance of common shares.

The convertible debenture has been split between debt and equity. The equity portion represents the valuation of the holders' option to convert the convertible debentures into common shares. In addition, debt issue costs have been netted with these two components. The equity portion and debt issue costs are charged to interest expense.

Values related to the convertible debenture at time of issue were:

Debt

(millions)		Debt		Issue Costs		Net Proceeds
Long-term debt	$	163	$	7	$	156
Equity component of convertible debentures		12		1		11
	$	175	$	8	$	167

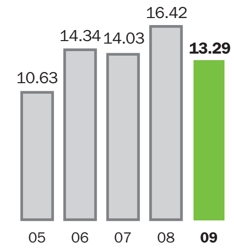
Cash and Bank Credit Facilities

As at December 31, 2009 (millions)		**Russel Metals Facility**		**U.S. Subsidiary Facility**		**Total**
Bank loans	**$**	**–**	**$**	**–**	**$**	**–**
Cash net of outstanding cheques		**344**		**16**		**360**
Net cash		**344**		**16**		**360**
Letters of credit		**(3)**		**(6)**		**(9)**
	$	**341**	**$**	**10**	**$**	**351**
Facilities						
Borrowings and letters of credit	**$**	**202**	**$**	**19**	**$**	**221**
Letters of credit		**50**		**12**		**62**
Facilities availability	**$**	**252**	**$**	**31**	**$**	**283**
Available line based on borrowing base	**$**	**214**	**$**	**31**	**$**	**245**

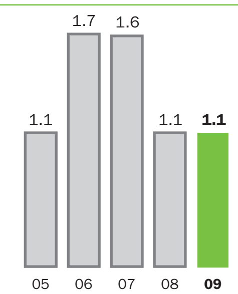
As at December 31, 2009, we had a facility with a syndicate of Canadian and U.S. banks totalling $252 million. The facility consists of availability of $202 million to be utilized for borrowings and letters of credit and $50 million to be utilized only for letters of credit. Letters of credit will be issued under the $50 million line first and additional needs will be issued under the $202 million line. On May 1, 2009, the facility was amended to increase availability and to provide for an adjustment to the fixed charge coverage ratio to exclude from EBIT non-cash inventory write-downs of up to $200 million plus any write-down of goodwill and intangibles currently on the balance sheet. The term of the amended facility was extended to April 29, 2011. We may extend this facility an additional year annually with the consent of the syndicate. The borrowings and letters of credit are available 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 $252 million. As of December 31, 2009, we were entitled to borrow and issue letters of credit totalling $214 million under this facility. At December 31, 2009, we had no borrowings and had letters of credit of $3 million. At December 31, 2008, we had borrowings of $48 million and had letters of credit of $53 million.

In addition, a U.S. subsidiary has its own one-year bank credit facility, which was renewed for one year in July 2009. The maximum borrowings, including letters of credit under this facility, were reduced from US$57 million to US$30 million at renewal. At December 31, 2009, this subsidiary had no borrowings and had letters of credit of US$5 million. At December 31, 2008, this subsidiary had borrowings of US$13 million and had letters of credit of US$9 million.

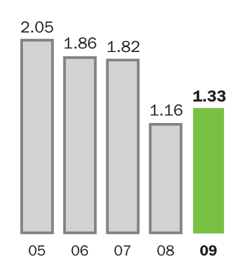
BOOK VALUE PER COMMON SHARE
$ per share



MARKET CAPITALIZATION
$ millions



MARKET CAPITALIZATION TO BOOK VALUE
times



Based on cash, cash equivalents and our bank facilities, we have access to approximately $581 million of cash availability based on our December 31, 2009 balances. The use of our bank facilities has been predominantly to fund working capital requirements. As steel prices and demand declined in 2009, cash generated from accounts receivable and inventory was utilized to reduce bank borrowings. These lines will be used to support increases in working capital when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

As at December 31, 2009, we were contractually obligated to make payments under our long-term debt agreements, cross currency swap agreements, capital leases, 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 our metals distribution business.

DERIVATIVES

Our fixed interest cross currency swaps purchased to manage the foreign currency exposure on a portion of our U.S. Senior Notes obligate us to purchase US$100 million at $1.318 for each US$1.00. Based on the December 31, 2009 exchange rate of $1.0466 per US$1.00, we would incur an obligation of $27 million in addition to our long-term debt obligation of $341 million. The fair value of our swaps include an additional obligation of $8 million, which represents settlement value of payments for the remaining life of the debt if we were to extinguish the swaps at December 31, 2009. We terminated the swaps in January 2010, for $35 million.

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 of our 2009 annual consolidated financial statements. During 2009, we contributed $3 million to these plans. We expect to contribute approximately $3 million to these plans during 2010.

ACCOUNTING AND REPORTING CHANGES – CANADIAN GAAP

Effective January 1, 2009, we adopted the 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 adoption of this standard did not have a material effect on our results of operations or cash flows.

Effective January 1, 2009, we adopted EIC Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This standard requires that we consider credit risk and counterparty risk when determining the fair value of our financial assets and liabilities. The adoption resulted in an adjustment to the January 1, 2009 balance sheet. We decreased derivatives by $7 million, increased future income tax liabilities by $2 million and increased accumulated other comprehensive income by $5 million.

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 as 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.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 completed a review of the identification of significant divergences between Canadian GAAP and IFRS and are in the process of performing a detailed analysis of each standard. We have established a team of our unit controllers who are actively involved in assessing the changes required and the effect of these high impact standards on their units. We have determined that the following areas will have the greatest impact on our accounting policies.

a) IFRS 1 First Time Adoption

All policy decisions with respect to applicable IFRS 1 choices have been reviewed, documented and approved by senior management.

b) IAS 1 Presentation of Financial Statements

IAS 1 presentation requirements have been reviewed and conversion issues identified. Our income statement will be presented by "nature" in accordance with IAS 1 as this presentation method is the method used by senior management in assessing operating performance.

c) IFRS 2 Share-Based Payments

A preliminary analysis of IAS 2 has been completed and this standard will result in an additional charge to equity on transition and a reduction in future expense over the period 2010 to 2013 due to the discontinuation of graded vesting. Accounting for new options under IFRS will result in compensation expense being front loaded over the vesting period.

d) IAS 12 Income Taxes

We have completed the IFRS planning document and gap analysis and are in the process of preparing related documentation.

e) IAS 16 Fixed Assets

The implementation of this standard will result in property, plant and equipment being split into significant components with each component depreciated over its estimated useful life. We have substantially completed the componentization and uploaded the data into a separate sub-ledger to be used for the dual reporting requirements in 2010. We are in the process of quantifying the transitional adjustment to IFRS. We have chosen not to fair value property, plant and equipment on transition.

f) IAS 19 Employee Benefits

We have completed our inventory of employee benefits. In early 2010 we will complete the IFRS disclosures and the calculation of the transitional adjustment on conversion. We have concluded and documented that we will utilize the Statement of Recognized Income and Expense method of accounting for employee benefits on conversion to IFRS.

g) IAS 32, IAS 39, IFRS 7 Financial Instruments

Hedge documentation relating to the conversion to IFRS has been completed and evaluated resulting in no transitional adjustment. The accounting for our convertible debentures, however, will result in a GAAP difference upon conversion to IFRS. We are currently updating our documentation under IFRS for financial instruments and preparing draft disclosure.

h) IAS 36 Impairment of Assets

Under IFRS the assessment for impairment is performed at the cash generating unit level, which is at a lower level than Canadian GAAP. We have identified our cash generating units under IFRS and are in the process of evaluating impairment upon transition to IFRS.

i) IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Canadian GAAP require accruals using a legal liability definition whereas IFRS use a broader definition of a constructive liability. We have evaluated our decommissioning liabilities to determine whether we have constructive obligations. Our evaluation has been documented and is in the process of review.

The following tables summarize our progress to date against the key elements of our transition plan:

a) Financial Statement Presentation

Key Activity	Progress to Date	Timetable
Assessment of Canadian GAAP to IFRS differences applicable to us.	All applicable significant differences have been assessed and a qualitative analysis has been performed.	Completed
Selection of accounting policy choices under IFRS 1: First Time Adoption and the entity's continuing IFRS accounting policies.	All IFRS 1 accounting policy decisions have been made and documented. Our IFRS accounting policy decisions are progressing as planned.	Q1 2010
Financial statement format including nature versus function presentation for income statement.	Decisions with respect to financial statement presentation have been made and the decision to follow the nature format for income statement presentation has been documented including draft mock statements.	Q1 2010
Changes to note disclosures.	Draft note disclosures have been prepared for significant conversion standards and others are in process.	Q2 2010
Preparation of opening balance sheet.	Preparation of our January 1, 2010 balance sheet is scheduled for April 2010.	Q2 2010
Quantification of impact, on transition and prospectively.	Quantifications for high impact standards are in progress.	Continuing ongoing process

b) Training and Communication

Key Activity	Progress to Date	Timetable
Key finance staff are provided with adequate training and are knowledgeable about applicable IFRS standards.	Training has been provided for all leaders on the conversion team. IFRS standard requirements have been communicated to other affected team members.	Continuing ongoing process
Education of senior management team and Board of Directors.	Senior management has attended various IFRS update and training courses. IFRS/Canadian GAAP differences have been communicated to the Audit Committee. Quarterly updates on the conversion process have been provided to the Audit Committee and senior management.	Continuing ongoing process

c) Information Technology

Key Activity	Progress to Date	Timetable
Identify and assess IFRS differences that impact IT systems.	IT implications have been assessed with respect to additional information required under IFRS.	Completed
Creation of additional ledgers in IT system for dual reporting requirements for 2010.	Multiple sub-ledgers have been created, populated and balanced.	Q1 2010

d) Internal Controls Over Financial Reporting and Disclosure Controls & Procedures

Key Activity	Progress to Date	Timetable
Assess changes required to internal controls as a result of IFRS requirements.	Except for an additional level of review by IFRS team leaders, no significant changes to internal controls have been identified as the processes have not changed significantly.	Continuing ongoing process

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, fair values, income taxes, pension and benefit obligations, component allocation of convertible debentures, 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 inventories.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable that we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at December 31, 2009 approximates our reserve at December 31, 2008; however, our accounts receivable balance is significantly less. Bad debt expense for 2009 as a percentage of revenue approximates that of 2008.

Inventories

We review our inventory to ensure that the cost of inventory is not in excess of its estimated net realizable value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the estimated selling price less cost to sell and when product is determined to be slow moving or obsolete. During 2009, significant reductions in estimated selling price have resulted in write-downs. The inventory reserve level at December 31, 2009 increased compared to the level at December 31, 2008 due to write-downs taken during the first half of 2009 on product that still remains in inventory. During 2009, we increased cost of sales by $159 million related to inventory write-downs.

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 defined benefit pension plan to determine the actuarial present value of the accrued pension 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 plan 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.

We had approximately $80 million in plan assets at December 31, 2009, which is an increase of approximately $8 million from December 31, 2008. Accrued benefit obligations were $98 million at December 31, 2009 and $74 million at December 31, 2008.

Investment in Asset-Backed Commercial Paper

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

Our investment in non-bank asset-backed commercial paper is included in Other Assets at its estimated fair value. As there is currently no representative market for this asset, 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, 2009. 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 adds to our platform for growth in the Southeastern and Midwestern regions of the United States. We believe 2010 should provide opportunities for acquisitions.

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 significantly decrease throughout 2009 compared to 2008. The timing and extent of future price changes from steel producers and their impact on us cannot be predicted with any certainty due to the inherent cyclical nature of the steel industry. Demand for our products remains at low levels and we cannot predict when or if it will return to pre-2009 levels.

FOURTH QUARTER RESULTS

The following table provides operating profit (loss) 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 table shows the segments as they are reported to management and they are consistent with the segment reporting in the consolidated financial statements.

	Quarters Ended December 31,		
(millions, except percentages)	**2009**	2008	2009 change as a % of 2008
Segment Revenues			
Metals service centers	**$ 235.9**	$ 424.7	(44%)
Energy tubular products	**147.3**	297.1	(50%)
Steel distributors	**46.7**	118.3	(61%)
Other	**2.8**	2.6	
	$ 432.7	$ 842.7	(49%)
Segment Operating Profits Excluding Inventory Write-down			
Metals service centers	**$ 6.7**	$ 19.3	(65%)
Energy tubular products	**1.4**	40.7	(97%)
Steel distributors	**2.4**	19.8	(88%)
Corporate expenses	**(3.8)**	(2.7)	(41%)
Other	**1.1**	0.5	
Operating profits	**$ 7.8**	$ 77.6	(90%)
Segment Gross Margin as a % of Revenues Excluding Inventory Write-down			
Metals service centers	**21.0%**	18.6%	
Energy tubular products	**7.1%**	23.0%	
Steel distributors	**13.3%**	17.7%	
Total operations	**15.9%**	19.9%	
Segment Operating Profits as a % of Revenues Excluding Inventory Write-down			
Metals service centers	**2.8%**	4.5%	
Energy tubular products	**1.0%**	13.7%	
Steel distributors	**5.1%**	16.7%	
Total operations	**1.8%**	9.2%	

Fourth quarter results for 2009 compared to fourth quarter 2008 are similar to the year 2009 versus 2008. Our gross margin percentage excluding inventory write-downs for the fourth quarter 2009 is more representative of a normal margin, while our fourth quarter 2008 gross margin percentage was inflated by a continued strong quarter for energy tubular products and shipments that were previously committed to in the steel distributors segment.

Our earnings per share for the fourth quarter of 2009 were $0.05 excluding net inventory write-downs and asset impairment. Volumes declined starting in mid-November 2009 and remained weak to year end resulting in lower earnings than we anticipated for the fourth quarter, particularly in the energy tubular products segment. Tons shipped in the fourth quarter of 2009 for metals service centers were approximately 6% less than in the third quarter of 2009.

OUTLOOK

The steel industry in North America has experienced the best of times and the worst of times in the last two years. The degree of demand recovery has yet to play out while pricing appears to have stabilized.

We believe that 2010 will be a year of slow growth in demand as the various industries impacted by the economic downturn improve at different points and rates in the year. The steel mills are trying to increase pricing to cover their input costs and return to profitability. We believe pricing will fluctuate in a narrower band than seen in the past two years but will have ups and downs driven by mill demand and capacity increases.

Activity levels have increased for both our metals service centers and energy tubular products operations in early 2010. Mill price increases announced for first quarter 2010 are also positive for us. We believe our capital structure is well positioned to support growth during 2010.

February 18, 2010

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, 2009, and has concluded that they are effective.

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

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

February 18, 2010

Brian R Hedges

B. R. Hedges
President and
Chief Executive Officer

M E Britton

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, 2009 and 2008 and the consolidated statements of earnings (loss), retained earnings, comprehensive income (loss), accumulated other comprehensive income (loss) and cash flows for 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, 2009 and 2008 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 18, 2010

At December 31 (millions)		**2009**		2008
ASSETS				
Current				
Cash and cash equivalents	**$**	**359.6**	$	44.9
Accounts receivable		**217.8**		429.3
Inventories (Note 6)		**517.9**		925.1
Prepaid expenses and other assets		**4.9**		8.1
Income taxes		**53.0**		7.1
		1,153.2		1,414.5
Property, Plant and Equipment (Note 7)		**231.9**		249.9
Future Income Tax Assets (Note 13)		**5.9**		1.0
Pensions and Benefits (Note 18)		**8.0**		6.5
Other Assets (Note 8)		**8.3**		7.0
Goodwill and Intangibles (Note 5)		**28.4**		71.8
	$	**1,435.7**	$	1,750.7
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Bank indebtedness	**$**	**–**	$	64.9
Accounts payable and accrued liabilities		**252.3**		420.7
Income taxes payable		**1.4**		30.3
Current portion long-term debt (Note 10)		**1.3**		1.4
		255.0		517.3
Derivatives (Note 16)		**30.9**		22.1
Long-Term Debt (Note 10)		**340.8**		217.5
Pensions and Benefits (Note 18)		**5.9**		5.8
Future Income Tax Liabilities (Note 13)		**9.9**		7.9
		642.5		770.6
Shareholders' Equity (Note 14)				
Common shares		**478.9**		478.8
Retained earnings		**315.3**		467.0
Contributed surplus		**11.4**		9.4
Accumulated other comprehensive income (loss)		**(24.0)**		24.9
Equity component of convertible debenture (Note 10)		**11.6**		–
		793.2		980.1
	$	**1,435.7**	$	1,750.7

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 (LOSS)

For the years ended December 31 (millions, except per share data)	**2009**	2008
Revenues	**$ 1,971.8**	$ 3,366.2
Cost of sales	**1,807.6**	2,614.7
Gross margin	**164.2**	751.5
Operating expenses	**264.3**	391.1
Earnings (loss) before the following	**(100.1)**	360.4
Other income (expense) (Note 11)	**5.3**	(5.2)
Impairment of goodwill and intangibles (Note 5)	**(33.8)**	–
Impairment of property, plant and equipment (Note 7)	**(1.6)**	–
Interest expense, net (Note 12)	**(20.2)**	(10.6)
Earnings (loss) before income taxes	**(150.4)**	344.6
(Provision for) recovery of income taxes (Note 13)	**58.4**	(116.1)
Net earnings (loss)	**$ (92.0)**	$ 228.5
Basic earnings (loss) per common share	**$ (1.54)**	$ 3.67

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 (millions)	**2009**	2008
Retained earnings, beginning of the year	**$ 467.0**	$ 411.7
Net earnings (loss) for the year	**(92.0)**	228.5
Amount related to common shares purchased for cancellation (Note 14)	**–**	(57.8)
Dividends on common shares	**(59.7)**	(115.4)
Retained earnings, end of the year	**$ 315.3**	$ 467.0

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (millions)		**2009**		2008
Net earnings (loss)	**$**	**(92.0)**	$	228.5
Other comprehensive income (loss) (Note 15)				
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations		**(67.4)**		82.6
Reclassification adjustment for realized foreign exchange gain included in net income		**0.5**		–
Unrealized gains (losses) on items designated as net investment hedges		**9.5**		(12.0)
Unrealized gains (losses) on items designated as cash flow hedges		**(12.1)**		12.3
Gains (losses) on derivatives designated as cash flow hedges transferred to net income in the current period		**15.2**		(19.7)
Other comprehensive income (loss)		**(54.3)**		63.2
Comprehensive income (loss)	**$**	**(146.3)**	$	291.7

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (millions)		**2009**		2008
Accumulated net unrealized foreign currency translation gains and losses				
Balance, beginning of year	**$**	**36.9**	$	(45.7)
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations		**(67.4)**		82.6
Reclassification adjustment for realized foreign exchange gain included in net income		**0.5**		–
Balance, end of the year		**(30.0)**		36.9
Accumulated net unrealized gain (loss) on cash flow and net investment hedges				
Balance, beginning of year		**(12.0)**		7.4
Transitional adjustment (net of income tax of $2.0) (Note 2)		**5.4**		–
Unrealized gains (losses) on items designated as net investment hedges		**9.5**		(12.0)
Unrealized gains (losses) on items designated as cash flow hedges		**(12.1)**		12.3
Gains (losses) on derivatives designated as cash flow hedges transferred to net income in the current period		**15.2**		(19.7)
Balance, end of the year		**6.0**		(12.0)
Accumulated other comprehensive income (loss)	**$**	**(24.0)**	$	24.9

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

For the years ended December 31 (millions)	**2009**	2008
Operating activities		
Net earnings (loss) for the year	**$ (92.0)**	$ 228.5
Depreciation and amortization	**25.7**	23.4
Future income taxes	**(10.1)**	(1.8)
(Gain) loss on sale of property, plant and equipment	**(4.3)**	0.5
Stock-based compensation	**2.1**	3.7
Difference between pension expense and amount funded (Note 18)	**(1.4)**	(2.1)
Asset impairment	**35.4**	–
Other	**0.2**	5.9
Cash (used in) from operating activities before non-cash working capital	**(44.4)**	258.1
Changes in non-cash working capital items		
Accounts receivable	**200.1**	(62.9)
Inventories – net increase in NRV reserve	**158.7**	37.7
Inventories	**197.8**	(303.7)
Accounts payable and accrued liabilities	**(156.7)**	99.6
Current income taxes	**(67.6)**	30.1
Other	**3.2**	(2.3)
Change in non-cash working capital	**335.5**	(201.5)
Cash from operating activities	**291.1**	56.6
Financing activities		
(Decrease) increase in bank borrowing	**(64.9)**	64.9
Issue of common shares (Note 14)	**–**	2.8
Purchase of common shares (Note 14)	**–**	(86.4)
Issuance of long-term debt	**167.1**	–
Dividends on common shares	**(59.7)**	(115.4)
Repayment of long-term debt	**(1.5)**	(2.3)
Deferred financing	**(2.5)**	(0.1)
Cash from (used in) financing activities	**38.5**	(136.5)
Investing activities		
Purchase of property, plant and equipment	**(18.6)**	(22.2)
Proceeds on sale of property, plant and equipment	**5.6**	0.2
Purchase of business (Note 4)	**–**	(30.9)
Cash used in investing activities	**(13.0)**	(52.9)
Effect of exchange rate changes on cash and cash equivalents	**(1.9)**	(4.1)
Increase (decrease) in cash and cash equivalents	**314.7**	(136.9)
Cash and cash equivalents, beginning of the year	**44.9**	181.8
Cash and cash equivalents, end of the year	**$ 359.6**	$ 44.9

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, 2009, short-term investments were $110.0 million (2008: $nil) and cash on deposit in bank accounts including demand deposits, net of outstanding cheques was $249.6 million (2008: $44.9 million). Cash and cash equivalents are designated as held-for-trading and are carried at fair value.

c) Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is not estimated to be recoverable due to declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

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, 2 to 25 years for machinery and equipment and over the lease term for leasehold improvements. Depreciation expense was $24.1 million in 2009 (2008: $22.6 million).

e) Deferred financing charges and amortization

Eligible costs incurred relating to bank financing are deferred and amortized on a straight-line basis over the period of the related financing. Deferred financing charges are recorded at cost less accumulated amortization. Amortization of deferred financing charges was $0.8 million in 2009 (2008: $0.2 million). Eligible costs related to long-term debt financing and costs related to issuance of convertible debentures are capitalized to the carrying amount of the associated debt and amortized using the effective interest method.

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, when the carrying value of the goodwill exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. A discounted cash flow valuation technique is used to determine the fair value of goodwill (Note 5).

Intangible assets are recorded at cost, which for business acquisitions represents the fair value at the date of acquisition, and are comprised of customer lists. Customer lists are amortized on a straight-line basis over their estimated useful life, 15 years. Amortization of customer lists was $0.8 million for the year ended December 31, 2009 (2008: $0.6 million).

g) Impairment of long-lived assets

Long-lived assets, which include property, plant and equipment and intangibles, are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. An impairment loss is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposal.

h) 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.

i) 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.

j) 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 1.0466 at December 31, 2009 (2008: 1.2246). Revenues and expenses are translated at the average rate of exchange during the year. For 2009, the U.S. dollar published average exchange rate was 1.1415 (2008: 1.0671). The resulting gains or losses are included in other comprehensive income (loss).

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 (Note 10) denominated in a foreign currency designated as a hedge (Note 11) of the Company's net investment in foreign subsidiaries are included in other comprehensive income (loss).

k) 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.

l) 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 date being charged to compensation expense until the units are exercised. Compensation expense for restricted share units is recognized over the vesting period, with changes in the quoted market price from the issue date to the reporting period date being charged to compensation expense until the units mature.

m) 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 2009 was 59,696,743 (2008: 62,329,483). Diluted earnings per share is calculated using the treasury stock method.

n) 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.

o) 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, components of convertible debentures, other contingencies, income taxes and assigned values on net assets acquired represent management's best estimates. Actual results could differ from these estimates.

p) Leases

Leases are classified as capital or operating depending on the terms and conditions of the contracts. The costs of assets acquired under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments, net of imputed interest. Operating leases are expensed on a straight-line basis.

2. CHANGES IN ACCOUNTING POLICIES

a) On January 1, 2009, the Company adopted the 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 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material effect on the Company's results of operations.

On January 1, 2009, the Company adopted EIC Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This standard requires that the Company consider credit risk and counterparty risk when determining the fair value of financial assets and liabilities. The Company adopted this standard retrospectively without restatement. The effect of the standard was to decrease derivatives by $7.4 million, increase future income tax liabilities by $2.0 million and increase accumulated other comprehensive income (loss) by $5.4 million on the balance sheet as of January 1, 2009.

During June 2009, the CICA issued an amendment to Handbook section 3862, Financial Instruments – Disclosures, to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending December 31, 2009. The standard requires the Company to categorize its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement. Level one includes unadjusted quoted prices in active markets for identical assets and liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

b) 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.

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.

3. FUTURE ACCOUNTING CHANGES

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 will begin reporting its financial statements in accordance with IFRS commencing January 1, 2011. The Company's conversion to IFRS is progressing as planned but the impact on its financial position and results of operations has not yet been determined.

The CICA has also issued Handbook section 1582, Business Combinations and section 1601, Consolidated Financial Statements. These sections replace section 1581, Business Combinations and section 1600, Consolidated Financial Statements. The objective of section 1582 is to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. Section 1601 revises and enhances the standards for the preparation of consolidated financial statements subsequent to a business combination. Both sections come into effect for financial periods beginning January 1, 2011, which coincides with the conversion to IFRS.

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. The Company has contingent consideration of up to US$5 million which may be paid based on Norton achieving certain performance targets during the five years to December 31, 2013. The Company has accounted for the acquisition using the purchase method. The purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition.

(millions)		
Working capital	**$**	**19.7**
Property, plant and equipment		**8.5**
Income taxes payable		**(3.4)**
Intangible assets		**1.3**
Goodwill (non-tax deductible)		**7.2**
Net identifiable assets		**33.3**
Cash, net of debt assumed		**3.3**
Net assets acquired	**$**	**36.6**
Consideration:		
Cash	**$**	**36.2**
Transaction costs		**0.4**
	$	**36.6**

5. GOODWILL AND INTANGIBLES

a) Components of goodwill and intangibles are as follows:

(millions)		**2009**		2008
Customer lists – metals service centers	**$**	**8.3**	$	11.3
Goodwill – metals service centers		**18.7**		59.1
Goodwill – energy tubular products		**1.4**		1.4
	$	**28.4**	$	71.8

The continuity of goodwill is as follows:

(millions)		**2009**		2008
Balance – January 1	**$**	**60.5**	$	44.8
Goodwill acquired		**–**		7.2
Foreign exchange		**(7.3)**		8.5
Impairment charge		**(33.1)**		–
Balance – December 31	**$**	**20.1**	$	60.5

The components of intangibles are as follows:

(millions)		**2009**		2008
Intangibles – cost	**$**	**10.2**	$	8.9
Customer lists acquired		**–**		1.3
Accumulated amortization		**(1.5)**		(0.7)
Foreign exchange		**0.3**		1.8
Impairment – customer lists		**(0.7)**		–
Balance – December 31	**$**	**8.3**	$	11.3

b) Impairment of goodwill and intangibles

The Company completed its goodwill and long-lived assets impairment tests during the fourth quarter of 2009. The Company concluded that $33.1 million of its goodwill and $0.7 million of its intangibles in the metals service centers segment relating to its acquisitions of JMS Metals Services, Inc. and Norton Metal Products, Inc. were impaired and $33.8 million was charged to income in the year (2008: $nil).

6. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventories of $1.8 billion (2008: $2.6 billion) were expensed through cost of sales during the year, including $161.7 million (2008: $39.3 million) for inventory write-downs to net realizable value and $3.0 million (2008: $1.6 million) for reversals of previous write-downs due to price increases on certain products in the fourth quarter of 2009.

7. PROPERTY, PLANT AND EQUIPMENT

(millions)				**2009**								2008
		Cost		**Accumulated Depreciation**		**Net**		Cost		Accumulated Depreciation		Net
Land and buildings	**$**	**186.7**	**$**	**(57.5)**	**$**	**129.2**	$	188.2	$	(51.4)	$	136.8
Machinery and equipment		**261.0**		**(167.1)**		**93.9**		260.2		(156.7)		103.5
Leasehold improvements		**26.9**		**(18.1)**		**8.8**		27.2		(17.6)		9.6
	$	**474.6**	**$**	**(242.7)**	**$**	**231.9**	$	475.6	$	(225.7)	$	249.9

Land included in land and buildings was $23.4 million (2008: $24.3 million).

During 2009, an impairment loss of $1.6 million was recorded for buildings at one operation within the metals service centers segment.

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, 2009, 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 9% (2008: 10%). The asset retirement obligation, including applicable accretion at December 31, 2009, was $0.6 million (2008: $0.6 million) and the undiscounted expected cash flow relating to its asset retirement obligation was $1.6 million (2008: $1.6 million).

8. OTHER ASSETS

Other assets was comprised of:

(millions)		**2009**		2008
Investment in asset-backed commercial paper	**$**	**4.5**	$	4.5
Deferred charges on short-term revolving credit facility		**1.8**		0.2
Other		**2.0**		2.3
	$	**8.3**	$	7.0

As at December 31, 2009, 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. During 2008, court approval was obtained to replace the existing short-term investments with longer term notes, pool certain series of non-bank asset-backed commercial paper and mitigate the collateral call obligations.

In January 2009, the Company received $10.9 million of new notes issued by a master asset vehicle. 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. The Company's investment is held in Master Asset Vehicle 2, which utilizes a margin funding facility as part of the restructuring. The Company received A-1 and A-2 notes representing 87% of notes received that will pay interest and be assigned an investment grade rating. 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. During 2009, the Company received $0.6 million (2008: $nil) in pre-restructuring accrued interest, which was applied to the carrying value.

Although there have been some isolated trades subsequent to January 21, 2009, 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 increase of $0.6 million was recorded in 2009 (2008: $5.4 million loss).

The Company utilized the following assumptions:

Bankers' acceptance rate	0.44%
Discount rate for cash flows	7.7%–8.2%
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 $0.7 million.

9. REVOLVING CREDIT FACILITIES

On May 1, 2009, the Company entered into an agreement with a syndicate of banks to amend and restate its credit agreement. The new agreement provides a credit facility of $202.5 million available for borrowings and letters of credit, an additional $50 million for letters of credit, increased interest and standby fees and an adjustment to the fixed charge coverage ratio covenant for potential inventory write-downs and goodwill and intangibles impairment. The Company incurred costs of $2.5 million to amend the facility, which have been included as deferred charges in other assets (Note 8). The facility has a maturity date of April 29, 2011 and provides for annual extensions. Interest and standby fees are at rates which vary based on the Company's credit rating.

The Company was in compliance with the financial covenants at December 31, 2009. 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, 2009, the Company had borrowings of $nil (2008: $47.8 million) and letters of credit of $3.0 million (2008: $52.6 million).

On July 30, 2009, the Company renewed its U.S. subsidiary credit facility and reduced the maximum borrowings under this facility to US$30 million. At December 31, 2009, this subsidiary had borrowings of $nil (2008: US$12.5 million) and letters of credit of US$5.3 million (2008: US$8.7 million).

10. LONG-TERM DEBT

Long-term debt was comprised of the following:

(millions)		**2009**		2008
6.375% US$175 million Senior Notes due March 1, 2014	**$**	**179.7**	$	210.2
7.75% $175 million convertible debentures due September 30, 2016		**156.2**		–
Capital lease obligations		**6.2**		8.7
Less: current portion		**(1.3)**		(1.4)
	$	**340.8**	$	217.5

a) In October 2009, the Company issued $175 million of 7.75% convertible unsecured subordinated debentures for net proceeds of $167.1 million. The convertible debentures mature on September 30, 2016, and interest is payable semi-annually on March 31 and September 30 in each year commencing March 31, 2010. Each convertible debenture is convertible into common shares of the Company at the option of the holder at any time on or prior to the business day immediately preceding (i) maturity date; or (ii) the date specified for redemption of the convertible debentures, at a conversion price of $25.75 being a conversion rate of 38.8350 common shares per $1,000 principal amount of convertible debentures.

On or after September 30, 2015, the convertible debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest. The Company may, at its option and subject to certain conditions, elect to satisfy its obligation to repay all or any portion of the principal amount of the convertible debentures that are to be redeemed or that are to mature through the issuance of common shares equal to the principal amount of the convertible debentures that are to be redeemed or that are to mature divided by 95% of then fair market value of the common shares. Any accrued or unpaid interest will be paid in cash.

The Company recorded the convertible debentures by valuing the debt portion using a discounted cash flow valuation technique. The remaining value of the convertible debenture, which represents the holders' option to convert the debentures into common shares, is classified as equity.

On issuance, the Company recorded a liability of $155.6 million, net of issue costs of $7.4 million, and equity of $11.6 million, net of issue costs of $0.5 million.

Interest expense on the convertible debentures is composed of the interest calculated on the face value of $175 million, issue costs and an annual notional interest representing the accretion of the carrying value of the convertible debentures. Interest expense is charged to income using the effective interest method. The interest expense and notional interest recorded were $3.3 million and $0.4 million, respectively.

b) 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. dollar-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 would receive US$100 million for $131.8 million on March 1, 2014 subject to early termination. At December 31, 2009, both the swap counterparties and the Company had the right to early terminate the swaps in the first quarter of 2010. On January 22, 2010, the Company terminated these swaps (Note 20).

The Company 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 (loss) and the ineffective portion is recorded through net earnings. No ineffective portion was recorded as income in 2009 (2008: $0.5 million expense) (Notes 11 and 20).

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%, on or after March 1, 2010 at 102.125%, on or after March 1, 2011 at 101.063% and on or after March 1, 2012 at 100.000%. 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, 2009.

11. OTHER INCOME (EXPENSE)

(millions)		**2009**		2008
Gain on sale of property, plant and equipment	**$**	**4.3**	$	–
Unrealized gain (loss) on investment (Note 8)		**0.6**		(5.4)
Ineffectiveness on cash flow hedges (Note 10)		**–**		0.5
Change in fair value of financial instruments		**–**		(0.3)
Other		**0.4**		–
	$	**5.3**	$	(5.2)

On May 8, 2009, the Company completed the sale of its Saskatoon, Saskatchewan facility. The property was sold as a larger facility was constructed in Saskatoon.

12. INTEREST EXPENSE, NET

(millions)		**2009**		2008
Interest on long-term debt	**$**	**19.6**	$	15.6
Other interest expense (income), net		**0.6**		(5.0)
	$	**20.2**	$	10.6

Total interest paid in 2009 was $16.4 million (2008: $15.1 million).

13. INCOME TAXES

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

(millions)		**2009**		2008
Future income tax assets				
Tax benefit of loss carry forward	**$**	**0.9**	$	–
Property, plant and equipment		**(3.6)**		–
Pensions and benefits		**0.7**		0.8
Goodwill and intangibles		**7.8**		–
Other timing		**0.1**		0.2
Total future income tax assets		**5.9**		1.0
Future income tax liabilities				
Property, plant and equipment		**(9.2)**		(10.8)
Pensions and benefits		**(0.6)**		(0.4)
Goodwill and intangibles		**–**		(1.9)
Items charged or credited to equity		**(1.1)**		3.7
Other timing		**1.0**		1.5
Total future income tax liabilities		**(9.9)**		(7.9)
Net future income taxes	**$**	**(4.0)**	$	(6.9)

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

	2009	2008
Average combined statutory rate	**31.2%**	31.9%
Rate difference of U.S. companies	**6.3%**	0.8%
Recognition of previously unrecorded tax benefits	**1.6%**	–
Statutory tax rate changes	**0.3%**	–
Stock compensation and not deductible items	**(0.7%)**	0.9%
Other	**0.1%**	0.1%
Average effective tax rate	**38.8%**	33.7%

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

(millions)		**2009**		2008
Current provision	**$**	**(47.8)**	$	117.9
Future provision		**(10.1)**		(1.8)
Statutory rate adjustments		**(0.5)**		–
	$	**(58.4)**	$	116.1

d) Income taxes paid, net of refunds, in 2009 were $27.3 million (2008: $89.1 million).

e) At December 31, 2009, the Company had capital losses available of $39.6 million (2008: $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.

14. SHAREHOLDERS' EQUITY

a) At December 31, 2009 and 2008, 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, 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
Stock options exercised	3,400		0.1
Balance, December 31, 2009	**59,698,690**	**$**	**478.9**

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 Company did not renew its Normal Course Issuer Bid in 2009.

The continuity of contributed surplus is as follows:

(millions)		**2009**		2008
Balance, January 1	**$**	**9.4**	$	6.2
Stock-based compensation expense		**2.1**		3.7
Exercise of options		**(0.1)**		(0.5)
Balance, December 31	**$**	**11.4**	$	9.4

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	
	2009	2008	**2009**	2008
Balance, January 1	**2,745,926**	2,146,683	**$ 26.46**	$ 25.07
Granted	**292,558**	834,841	**16.58**	26.70
Exercised	**(3,400)**	(208,298)	**11.99**	13.24
Expired or forfeited	**(333,000)**	(27,300)	**33.70**	25.41
Balance, December 31	**2,702,084**	2,745,926	**$ 24.52**	$ 26.46
Exercisable	**1,577,833**	1,072,953	**$ 23.55**	$ 24.63

The outstanding options had an exercise price range as follows:

(number of options)	**2009**	2008
$ 25.75 – $ 33.81	**1,943,826**	2,276,826
$ 15.86 – $ 25.74	**292,158**	–
$ 9.16 – $ 15.85	**328,300**	329,300
$ 5.50 – $ 9.15	**125,300**	127,300
$ 3.00 – $ 5.49	**12,500**	12,500
Options outstanding	**2,702,084**	2,745,926

The options expire in the years 2010 to 2019 and have a weighted average remaining contractual life of 6.2 years (2008: 7.7 years).

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

	2009	2008
Dividend yield	**5%**	5%
Expected volatility	**42%**	28%
Expected life	**5 yrs**	5 yrs
Risk free rate of return	**4%**	4%
Weighted average fair value of options granted	**$ 4.48**	$ 4.73

For the year ended December 31, 2009, compensation expense for stock options was $2.1 million (2008: $3.7 million).

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, 2009, there were 49,447 DSUs outstanding (2008: 31,271). Compensation expense relating to DSUs for the year ended December 31, 2009 was $0.3 million (2008: $nil).

e) The Company has established a Restricted Share Unit (RSU) plan for certain senior executives. A RSU entitles the holder to receive a cash payment equivalent to the market value of a common share at the maturity date. RSUs were issued in the first quarter of 2009 and vested over three years. At December 31, 2009, there were 206,037 RSUs issued and outstanding under the plan. Compensation expense relating to RSUs for the year ended December 31, 2009 was $1.2 million.

f) Diluted share amounts were computed as follows:

(number of shares)	**2009**	2008
Weighted average shares outstanding	**59,696,743**	62,329,483
Dilution impact of stock options	**38,195**	198,913
Dilution impact of convertible debentures	**1,582,657**	–
Diluted weighted average shares outstanding	**61,317,595**	62,528,396

Diluted loss per common share has not been disclosed as the effect of the conversion would be anti-dilutive (2008: $3.65).

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 provide the ability to finance future growth. Capital includes shareholders' equity, bank indebtedness and long-term debt, net of cash. The Company manages its capital structure and may make adjustments to the amount 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 credit facility. During the year ended December 31, 2009, the Company reduced its common share dividend to $0.25 per common share per quarter and increased its long-term debt by issuing $175 million 7.75% convertible debentures.

15. OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized gains (losses) on items designated as net investment hedges are net of income taxes of $(1.1) million (2008: $1.2 million). Unrealized gains (losses) on items designated as cash flow hedges are net of income taxes of $4.1 million (2008: $(4.7) million). Gains and losses on derivatives designated as cash flow hedges transferred to net income in the current period are net of income taxes of $(5.2) million (2008: $7.5 million).

16. FINANCIAL INSTRUMENTS

The Company classifies its financial assets, financial liabilities and non-financial derivatives 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.

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, 2009 and 2008 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 $175 million 7.75% convertible debentures at December 31, 2009 was $184.7 million. The fair value of the Company's US$175 million 6.375% Senior Notes at December 31, 2009 was US$164.5 million (2008: US$135.2 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 (loss) until maturity. The ineffectiveness is measured and recognized in the statement of earnings (loss) with an offset to other comprehensive income (loss).

As at December 31, 2009 and 2008, the estimated fair value of other financial assets and liabilities approximates their carrying values.

As at December 31, 2009, the Company was contractually obligated to make payments under its long-term debt agreement, cross currency swap agreements and operating lease obligations that come due during the following periods:

(millions)	Long-Term Debt Maturities and Derivatives	Long-Term Debt Interest	Operating Lease Obligations	Total
2010	$ 34.7	$ 28.3	$ 13.0	$ 76.0
2011	–	28.3	10.9	39.2
2012	–	28.2	9.2	37.4
2013	–	28.1	7.0	35.1
2014	183.2	19.7	5.0	207.9
2015 and beyond	175.0	23.9	6.9	205.8
Total	$ 392.9	$ 156.5	$ 52.0	$ 601.4

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 6.375% 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 would receive US$100 million and would pay $131.8 million. At December 31, 2009, this resulted in an obligation of $27.1 million. The fair value of the swaps includes an additional obligation of $7.6 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, 2009. At December 31, 2009, the swaps contained an option for the Company and the swap counterparties to early terminate the swaps in the first quarter of 2010. In January 2010, the Company terminated the swaps (Note 20).

At December 31, 2009, the Company was contractually obligated to repay its letters of credit under both its syndicated bank facility and its U.S. subsidiary facility at maturity during 2010 (Note 9).

As at December 31, 2009, the Company was contractually obligated to make payments under capital leases as follows:

(millions)	
2010	$ 1.8
2011	1.6
2012	1.5
2013	1.5
2014	0.7
2015 and beyond	0.2
Total minimum lease payments	7.3
Interest at rates varying between 4.6% and 17.3%	(1.1)
Net minimum lease payments	6.2
Less: current portion	(1.3)
Long-term portion	$ 4.9

The following table presents the fair value hierarchy of financial instruments by level as at December 31, 2009:

(millions)	Total	Level One	Level Two	Level Three
Financial assets and liabilities				
Cash and cash equivalents	$ 359.6	$ 359.6	$ –	$ –
Asset-backed commercial paper	4.5	–	–	4.5
Swaps	(34.7)	–	(34.7)	–
Total	$ 329.4	$ 359.6	$ (34.7)	$ 4.5

The reconciliation of asset-backed commercial paper measured at fair value based on level three inputs is as follows:

(millions)	**2009**
Balance, January 1	**$ 4.5**
Fair value gains (losses) included in:	
Net earnings (loss)	**0.6**
Comprehensive income (loss)	**–**
Interest received	**(0.6)**
Balance, December 31	**$ 4.5**

Fair value gains of $0.6 million are included in net earnings for the period ended December 31, 2009 and are recorded in other income (Note 11).

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. During 2009, no one customer accounted for more than 3% of our total revenues. At December 31, 2009, trade accounts receivable greater than 90 days represented less than 3% of total trade accounts receivable. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts, short-term investments and the fixed for fixed cross currency swaps. The Company mitigates this risk by entering into forward contracts and swaps with members of its banking 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 borrowings, net of cash and cash equivalents, are used to finance working capital, which is short-term in nature, 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, 2009, the Company had outstanding forward foreign exchange contracts in the amounts of US$4.4 million, maturing in the first half of 2010 (2008: US$7.2 million) and the fair value equals the contract value. The foreign exchange gain on U.S. dollar-denominated financial assets and liabilities included in 2009 operating earnings (loss) was $3.3 million (2008: $3.5 million).

In order to mitigate its foreign exchange exposure, the Company designated its swaps as a hedge of US$115 million of its long-term debt. In addition, the Company designated a portion of the Senior Notes not hedged by the swaps as a hedge of its net investment in foreign subsidiaries. In January 2010, these swaps were terminated and the Company designated all of its Senior Notes as a hedge on 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 certain regions in the Southeastern and Midwestern United States.

ii) Energy tubular products

The Company's energy tubular products operations distribute oil country tubular products, line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the 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 $37.6 million (2008: $35.7 million) and $45.0 million (2008: $51.0 million), respectively. These sales, which are at market rates, are eliminated in the table following.

a) Results by business segment:

(millions)		**2009**		2008
Segment Revenues				
Metals service centers	**$**	**1,094.7**	$	1,833.0
Energy tubular products		**624.1**		1,070.8
Steel distributors		**244.5**		450.7
		1,963.3		3,354.5
Other		**8.5**		11.7
	$	**1,971.8**	$	3,366.2
Segment Operating Profits (Losses)				
Metals service centers	**$**	**(13.1)**	$	186.0
Energy tubular products		**(47.1)**		136.5
Steel distributors		**(28.4)**		55.8
		(88.6)		378.3
Corporate expenses		**(13.2)**		(21.2)
Other income		**1.7**		3.3
	$	**(100.1)**	$	360.4
Capital Expenditures				
Metals service centers	**$**	**17.3**	$	19.2
Energy tubular products		**1.0**		2.4
Steel distributors		**0.1**		0.3
Other		**0.2**		0.3
	$	**18.6**	$	22.2
Depreciation Expense				
Metals service centers	**$**	**20.8**	$	19.5
Energy tubular products		**1.8**		1.6
Steel distributors		**0.5**		0.7
Other		**1.0**		0.8
	$	**24.1**	$	22.6
Identifiable Assets				
Metals service centers	**$**	**515.7**	$	800.5
Energy tubular products		**375.0**		586.1
Steel distributors		**87.7**		274.2
Identifiable assets by segment		**978.4**		1,660.8
Assets not included in segments				
Cash		**359.6**		44.9
Income tax assets		**58.9**		8.1
Deferred financing charges		**1.8**		0.2
Other assets		**14.5**		13.2
Corporate and other operating assets		**22.5**		23.5
Total assets	**$**	**1,435.7**	$	1,750.7

b) Results by geographic segment:

(millions)		**2009**		2008
Segment Revenues				
Canada	**$**	**1,422.0**	$	2,330.6
United States		**541.3**		1,023.9
	$	**1,963.3**	$	3,354.5
Segment Operating Profits (Losses)				
Canada	**$**	**22.9**	$	247.3
United States		**(111.5)**		131.0
	$	**(88.6)**	$	378.3
Identifiable Assets				
Canada	**$**	**670.3**	$	1,023.9
United States		**308.1**		636.9
	$	**978.4**	$	1,660.8

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
3	December 31, 2006
3	January 1, 2007
1	January 1, 2008
1	January 1, 2009

All of the Company's pension plans had a measurement date of December 31, 2009.

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

(millions)		**2009**		2008
Defined benefit pension plans				
Benefits earned during the year	**$**	**1.8**	$	2.2
Interest cost on benefit obligation		**5.2**		4.9
Expected return on plan assets		**(5.0)**		(5.9)
Valuation allowance adjustment		**(0.5)**		(0.4)
Other		**0.4**		0.3
		1.9		1.1
Post-retirement benefits		**0.4**		0.4
Defined contribution plans – contributions		**1.4**		1.0
Pension and benefit expense	**$**	**3.7**	$	2.5

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

	2009	2008
Assumed discount rate – year end	**5.25%**	7.00%
Discount rate	**7.00%**	5.75%
Expected long-term rate of return on plan assets	**6.50%**	7.00%
Rate of increase in future compensation	**3.75%**	3.75%
Rate of increase in future government benefits	**3.25%**	3.25%

The health care cost trend rates used were 5% for dental and 9.5% 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)	**2009**	2008	**2009**	2008
Reconciliation of accrued benefit obligation				
Balance, January 1	**$ 74.2**	$ 83.6	**$ 5.8**	$ 6.6
Current service cost	**1.8**	2.2	**–**	–
Participant contribution	**0.3**	0.3	**–**	–
Interest cost	**5.2**	4.9	**0.4**	0.3
Benefits paid	**(3.8)**	(4.6)	**(0.3)**	(0.4)
Plan amendments	**–**	1.1	**–**	–
Actuarial (gain) loss	**20.0**	(13.3)	**1.7**	(0.7)
Balance, December 31	**$ 97.7**	$ 74.2	**$ 7.6**	$ 5.8
Reconciliation of fair value of plan assets				
Balance, January 1	**$ 71.9**	$ 84.9	**$ –**	$ –
Actual return (loss) on plan assets	**8.4**	(11.9)	**–**	–
Employer contributions	**3.3**	3.2	**0.3**	0.4
Employee contributions	**0.3**	0.3	**–**	–
Benefits paid	**(3.8)**	(4.6)	**(0.3)**	(0.4)
Balance, December 31	**$ 80.1**	$ 71.9	**$ –**	$ –
Unamortized amounts				
Funded status – (deficit)	**$ (17.6)**	$ (2.3)	**$ (7.6)**	$ (5.8)
Unrecognized prior service cost	**1.7**	1.8	**–**	–
Unamortized net actuarial loss	**23.9**	7.5	**1.7**	–
Valuation allowance	**–**	(0.5)	**–**	–
Accrued benefit asset (liability)	**$ 8.0**	$ 6.5	**$ (5.9)**	$ (5.8)

As at December 31, 2009, seven of the defined benefit pension plans in the above table had unfunded obligations and all executive pension plans had unfunded obligations. As at December 31, 2008, three of the plans in the above table had unfunded obligations 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)		**2009**		2008
Defined contribution plans				
Fair value of plan assets				
Canadian plans	**$**	**5.7**	$	5.1
401(k) U.S. plans		**24.9**		24.8
	$	**30.6**	$	29.9

c) As at December 31, 2009, approximately 49% of all pension plan assets were invested in equities, 26% in fixed income securities, and 25% in cash and cash equivalents. The expected return on plan assets is based on the fair value of plan assets. In the defined benefit plans, 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
2010	$	4.3	$	0.5	$	4.8
2011		4.3		0.5		4.8
2012		4.7		0.5		5.2
2013		4.9		0.5		5.4
2014		5.1		0.5		5.6
2015–2019		31.6		2.6		34.2

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

(millions)		**2009**		2008
Current service costs	**$**	**1.8**	$	2.2
Interest on accrued benefit obligation		**5.2**		4.9
Actual (return) loss on assets		**(8.4)**		11.9
Actuarial loss (gain) on accrued benefit obligation		**20.0**		(13.3)
Prior service costs		**–**		1.2
Elements of future benefit costs		**18.6**		6.9
Adjustments to recognize the long-term nature of employee benefit costs:				
Difference between expected and actual return on assets		**4.9**		(17.8)
Difference between actuarial losses recognized and actuarial losses incurred		**(21.3)**		13.4
Difference between prior service costs recognized and prior service costs incurred		**(0.3)**		(1.4)
Defined benefit cost recognized	**$**	**1.9**	$	1.1

19. CONTINGENCIES AND COMMITMENTS

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

b) The Company 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.

20. SUBSEQUENT EVENT

On January 22, 2010, the Company entered into two transactions to terminate its swaps (Note 10). The Company paid $35.2 million to its swap counterparties to terminate the swaps, which represented the fair value of the swaps. Concurrent with the termination of the swaps, the Company designated its entire US$175 million Senior Notes as a hedge of its net investment in foreign subsidiaries. During 2010, $1.0 million will be reclassified from accumulated other comprehensive income (loss) to net earnings relating to the swaps.

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

CANADA

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 St. John
10019 Finning Frt.,
Mile 49 ½ Alaska Highway,
V1J 4M6
Tel: (250) 785-5641

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

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

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

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

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

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

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

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
4015 Wanuskewin Rd.,
S7P 0B4
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 Blvd., Unit D,
R2X 1R3
Tel: (204) 233-0728

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
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, Unit 2,
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)
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

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

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, boul. 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 Pkwy,
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 Blvd.,
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 N.W.,
35601
Tel: (256) 308-0580

GEORGIA

Trenton
JMS Russel Metals
199 South Industrial Blvd.,
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
2002 Timberloch Place,
The Woodlands,
Suite 200, 77380
Tel: (281) 292-2875

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

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

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
9300 W. 110th Street,
Suite 330, 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

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
Chair of the Board
Western Financial Group

Carl R. Fiora
Corporate Director
Steel industry executive

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

Brian R. Hedges
President and Chief Executive Officer, Russel Metals Inc.

Alice D. Laberge
Corporate Director

Lise Lachapelle
Corporate Director

William M. O'Reilly
Managing Partner, Davies Ward Phillips & Vineberg LLP

John W. Robinson
Corporate Director
Steel industry executive

CORPORATE GOVERNANCE

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

OFFICERS

Anthony F. Griffiths
Chair of the Board
Toronto

Brian R. Hedges
President and
Chief Executive Officer
Mississauga

Marion E. Britton
Vice President,
Chief Financial Officer
and Secretary
Mississauga

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

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

GLOSSARY

Adjusted EBIT
Earnings before deduction of interest and income taxes excluding inventory write-downs and asset impairments.

Adjusted EBITDA
Earnings before deduction of interest, income taxes, depreciation and amortization, inventory write-downs and asset impairments

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 before deduction of interest and income taxes.

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
Adjusted EBIT for period annualized over net assets employed.

Russel Metals Inc.

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