Russel Metals

2010 ANNUAL REPORT

THE STRENGTH OF RUSSEL METALS

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.

METALS SERVICE CENTERS

Our network of metals service centers carries 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. We purchase these products primarily from North American steel producers and package and sell them to end users in accordance with their specific needs. We service all major geographical regions of Canada and the Southeastern and Midwestern regions of the United States.

ENERGY TUBULAR PRODUCTS

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings from five Canadian and two U.S. locations. We purchase these products either from the pipe processing arms of North American steel mills or from independent manufacturers of pipe and pipe accessories.

STEEL DISTRIBUTORS

Our steel distributors act as master distributors, selling steel in large volumes to other steel service centers and large equipment manufacturers mainly on an “as is” basis. The main steel products sourced by this segment are carbon steel plate, beams, channel, flat rolled products, rails and pipe products.

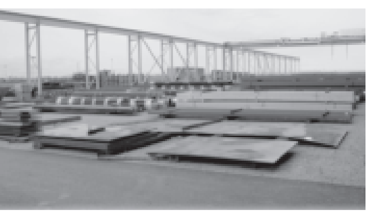
OUR STRENGTHS!

1

DIVIDEND We operate as a distributor in a mature, industrial commodity – steel. Our earnings over the steel cycle are aligned with our cash flows. These characteristics support our dividend policy of a high payout ratio over the cycle. Management is focused on sustaining our dividend.

2

CLEAN, STRONG BALANCE SHEET Our already pristine balance sheet was further enhanced in 2010 with the removal of two of our remaining complex financial instruments. Cash, accounts receivable, inventory and property, plant and equipment make up 96% of our total assets of $1.4 billion. In this era of an increasingly complex financial world, shareholders can read and understand our balance sheet and our business.



3

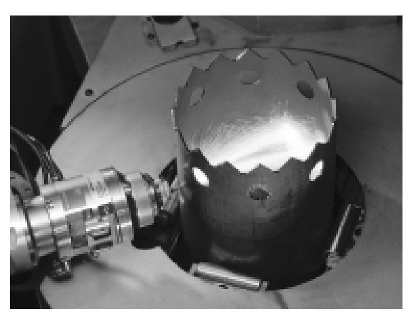
WELL POSITIONED TO GROW We have a conservative capital structure with $798 million in equity and $324 million in cash, compared with long-term debt of $325 million. This structure provides a foundation that will allow us to pursue acquisition opportunities, make capital investments and grow working capital as the economy recovers.

4

EXPERIENCED MANAGEMENT TEAM Our senior executives and other key members of our management team have an average of 30 years of experience in the metals distribution business. To facilitate an entrepreneurial culture, our compensation policies, at both senior and local management levels, are based on the profitability and asset utilization of our business units. In a mature, commodity-based industry, the people can make the difference between an average organization and an excellent organization. We have been able to attract and maintain some of the best people in the industry.

5

INDUSTRY LEADER We are one of the largest metals service centers in North America. Our processing capabilities include sawing to length, shearing to size, flame cutting, plasma cutting, hi-definition cutting, laser cutting, rolling, hole punching, drilling, grinding, flattening, slitting, cut-to-length, edging, press forming, and threading. Metal products include plate, sheet, structurals, bars, tubing, grating, pipe, casing, oil country tubular products, flanges, fittings, valves, and non-ferrous specialty metals. With this vast array of products and services, our investors can be assured that we have the capabilities to service our customer needs.



For the years ended December 31	2010	2009	2008	2007	2006
OPERATING RESULTS (millions)					
Revenues	**$ 2,175.4**	$ 1,971.8	$ 3,366.2	$ 2,559.2	$ 2,692.1
Net (loss) earnings	**69.7**	(92.0)	228.5	111.2	158.7
EBIT	**122.6**	(130.2)	355.2	176.8	250.2
Adjusted EBIT	**123.3**[(1)]	63.9[(1)]	392.9	176.8	250.2
EBIT as a % of revenue	**5.7%**	3.2%	11.7%	6.9%	9.3%
Adjusted EBITDA	**148.3**[(1)]	89.6[(1)]	416.3	197.2	270.2
EBITDA as a % of revenue	**6.8%**	4.5%	12.4%	7.7%	10.0%
Basic (loss) earnings per common share ($)	**$ 1.17**	$ (1.54)	$ 3.67	$ 1.77	$ 2.65
BALANCE SHEET INFORMATION (millions)					
Metals					
Accounts receivable	**$ 300.5**	$ 214.2	$ 425.9	$ 337.2	$ 324.7
Inventories	**544.1**	517.9	925.1	572.6	664.0
Prepaid expenses and other assets	**2.9**	4.6	7.6	4.7	3.8
Accounts payable and accruals	**(259.8)**	(231.2)	(393.7)	(272.3)	(262.8)
Net working capital – Metals	**587.7**	505.5	964.9	642.2	729.7
Fixed assets	**197.6**	213.1	230.4	210.4	170.9
Goodwill and intangibles	**26.9**	28.4	71.8	53.4	9.2
Net assets employed in metals operations	**812.2**	747.0	1,267.1	906.0	909.8
Other operating assets	**17.6**	18.9	19.4	20.4	21.5
Net income tax assets (liabilities)	**(16.5)**	47.7	(30.2)	(3.7)	(19.3)
Pension and benefit assets (liabilities)	**4.1**	2.1	0.7	(1.4)	(2.6)
Other corporate assets and liabilities	**(16.3)**	(39.9)	(38.0)	(43.5)	(20.8)
Total net assets employed	**$ 801.1**	$ 775.8	$ 1,219.0	$ 877.8	$ 888.6
CAPITALIZATION (millions)					
Bank indebtedness, net of (cash)	**$ (323.7)**	$ (359.6)	$ 20.0	$ (181.8)	$ (209.9)
Long-term debt (incl. current portion)	**326.7**	342.1	218.9	175.8	203.9
Total interest bearing debt, net of (cash)	**3.0**	(17.5)	238.9	(6.0)	(6.0)
Market capitalization	**1,373.5**	1,058.5	1,134.2	1,605.0	1,665.2
Total firm value	**$ 1,376.5**	$ 1,041.0	$ 1,373.1	$ 1,599.0	$ 1,659.2
OTHER INFORMATION					
Common shareholders' equity (millions)	**$ 798.1**	$ 793.3	$ 980.1	$ 883.8	$ 894.6
Book value per share ($)	**$ 13.31**	$ 13.29	$ 16.42	$ 14.01	$ 14.34
Free cash flow (millions)	**$ 86.0**	$ 95.7	$ 235.9	$ 123.7	$ 152.4
Capital expenditures (millions)	**$ 11.8**	$ 18.6	$ 22.2	$ 16.6	$ 27.6
Depreciation and amortization (millions)	**$ 25.0**	$ 25.7	$ 23.4	$ 20.4	$ 20.0
Earnings multiple	**19.6**	—	5.2	14.4	10.1
Firm value as a multiple of EBIT	**11.2**[(1)]	16.3[(1)]	3.9	9.0	6.6
Firm value as a multiple of EBITDA	**9.3**[(1)]	11.6[(1)]	3.3	8.1	6.1
Interest bearing debt/EBITDA	**2.2**[(1)]	3.8[(1)]	0.5	0.9	0.8
Debt as a % of capitalization	**29%**	30%	18%	17%	19%
Market capitalization as a % of book value	**172%**	133%	116%	182%	186%
Return on equity	**9%**	(12%)	23%	13%	18%
Return on capital employed	**15%**[(1)]	8%[(1)]	29%	20%	28%
COMMON SHARE INFORMATION					
Ending outstanding common shares	**59,978,173**	59,698,690	59,695,290	63,066,092	62,366,842
Average outstanding common shares	**59,717,629**	59,696,743	62,329,483	62,835,303	59,887,382
Dividend yield	**4.8%**	5.6%	5.3%	7.1%	6.0%
Dividend per share	**$ 1.10**	$ 1.00	$ 1.00	$ 1.80	$ 1.60
Share price – High	**$ 23.94**	$ 22.00	$ 31.36	$ 34.47	$ 29.38
Share price – Low	**$ 16.25**	$ 9.25	$ 15.01	$ 22.75	$ 21.61
Share price – Ending	**$ 22.90**	$ 17.73	$ 19.00	$ 25.45	$ 26.70

(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 the Q4 2009. It excludes the inventory reversal of $1.9 million in Q2 2010 and plant closure costs of $2.6 million in Q3 2010.

IN 2010, THE NORTH AMERICAN ECONOMY SLOWLY RECOVERED. OUR SALES VOLUMES INCREASED THROUGHOUT THE YEAR AND STEEL PRICES JUMPED LATE IN THE YEAR. OUR COMPANY RETURNED TO PROFITABILITY IN 2010 WITH REPORTED EARNINGS PER SHARE OF $1.17 AND EARNINGS EXCEEDED OUR DIVIDEND PAYOUT.

Over the last two years, the efforts and sacrifices of our employees have been central in our dramatic recovery, and we are positioned to take advantage of emerging business opportunities by capitalizing on the vast experience of our staff.

The volatility in steel pricing has increased on two fronts. The large dollar movement in steel prices was made even more dramatic by the speed at which prices changed as the pricing cycle compressed. We can now see two distinct pricing cycles in a twelve-month period. We continue to invest in systems that allow as much flexibility in the day-to-day decision processes as possible to ensure that we remain one of the most responsive metals distributors in North America. This allows the Company to remain one of the industry leaders measured by return on net assets and return on equity, supporting our industry-leading dividend.

METALS SERVICE CENTERS

While the economy recovered, 2010 was a year in which we emphasized a return to normality for our metals service centers segment and addressed areas where we needed additional capital or expertise. We became fully operational at our new Saskatoon facility that was opened in late 2009. We added a tube laser to our Winnipeg South operation in order to expand their processing presence further. We made the difficult decision to close our Port Robinson structural facility and relocate that operation to our existing Cambridge facility, which will be expanded. The move will occur in 2011. We continued to upgrade our use of technology by utilizing bar-coding capabilities at several operations and automating our time capture process for our Canadian hourly employees. On the management side, we appointed John Reid as Vice President Operations, Service Centers to allow our service center operations to benefit from his operating expertise.

ENERGY TUBULAR PRODUCTS

Our energy tubular products operations benefited from stronger oil prices, which resulted in a higher drilling rig count. In addition, advances in horizontal drilling technology resulted in increased horizontal drilling activity. Both of these factors increased the consumption of oil country tubular products in 2010. The inventory overhang moderated and offshore supply of products declined due to trade actions in both Canada and the United States, which helped margins increase.

Oil sands projects deferred over the last two years are now back in the active planning stages and contracts should be awarded in 2011, resulting in higher revenues in late 2011 and into 2012.

We recently announced that we hired Dean Rougas, an experienced industry executive, as the President of Spartan and we are expanding our Spartan energy tubular products operation in Houston, Texas.

BRIAN HEDGES
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

STEEL DISTRIBUTORS

Service centers and large OEM customers remain cautious about their inventory positions, and therefore demand levels have not returned to the pre-recession levels for our steel distributor operations. We also continue to be cautious and opportunistic in our steel purchasing. The demand and pricing volatility in the market, coupled with a weak U.S. dollar, reduced the number and price advantage of offshore product offerings. Consequently inventory levels and revenues remained at levels significantly lower than historical norms for this segment. Recent price increases should provide opportunities for increased revenues.

ACQUISITIONS

The volatility of the operating earnings of acquisition targets over the last two years has made pricing of acquisitions difficult. As earnings return to more stable patterns, we expect that more acquisitions will be completed in the industry in 2011 than in the previous two years.

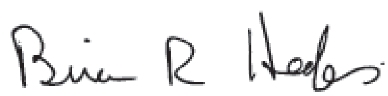
Over the past decade, we have strengthened our Canadian franchise through acquisitions, which we have rationalized and integrated with our existing operations. In 2007 and 2008 we strengthened our U.S. franchise through the acquisitions of JMS Metal Services and Norton Metal Products. We intend to continue to investigate acquisition opportunities that will be immediately accretive to earnings and that will enable us to build on our Canadian service center presence or grow our U.S. operations, particularly in the region surrounding our JMS operations. In our energy tubular products and steel distributors operations, we will continue to look for strong product niche players or strong regional operations.

OTHER BUSINESS

Along with the return to profitability, we took significant steps to position the Company for the future and to further strengthen our balance sheet. Two financial instruments on our balance sheet, our cross currency swaps and our investment in non-bank asset-backed commercial paper, were not easily understood. The mark to market of these instruments at the end of each reporting period resulted in earnings volatility. During 2010 the swaps were terminated and the commercial paper was sold, resulting in their removal from our balance sheet.

Starting in 2011 we are required to adopt International Financial Reporting Standards, which, with one exception, would have only minimal impact on our financial statements. This one exception, which would have resulted in earnings volatility, was eliminated when we amended the terms of our convertible debentures.

With our operations returning to profitability, our balance sheet free of non-operating assets and liabilities, our high dividend yield and our more than $300 million in cash, we are well positioned to grow the business in 2011 by seeking out and reacting to opportunities that present themselves.



BRIAN HEDGES
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

DEAR FELLOW SHAREHOLDERS, AS 2011 COMMENCES, WE REFLECT ON THE POSITIVE MOMENTUM BROUGHT ON BY THE NASCENT RECOVERY IN 2010. IT IS A TESTAMENT TO THE STRENGTH OF OUR BALANCE SHEET AND OUR MANAGEMENT THAT WE RECOVERED SO STRONGLY. I WOULD LIKE TO THANK BRIAN HEDGES AND ALL THE RUSSEL EMPLOYEES FOR NAVIGATING US THROUGH THE DIFFICULT TIMES IN 2009 TO A RECOVERY IN 2010.

The last decade has seen the emergence of several issues relating to public companies targeted at ensuring that shareholder interests are protected. These include: corporate governance, say on pay, and environmental issues.

CORPORATE GOVERNANCE

Over the last several years, corporate governance has gained increasing prominence with a focus on improving governance practices. Many of the areas stressed already existed at Russel Metals prior to this trend. We continue to have excellent results in the financial press surveys on corporate governance, ranking in the top quartile of surveyed companies. We regularly review and implement changes in our governance practices to remain in the forefront of what is prudent in this area.

Our Board is a skilled and diverse group whose attendance is strong and whose commitment to our Company is second to none. We have a strong mix of members with operating, financial, and legal expertise along with many years of business experience. I would like to thank my fellow Board members for their dedication and support of me and Russel Metals.

SAY ON PAY

In May, we had our first shareholder advisory vote and our shareholders voted overwhelmingly in favour of our current executive compensation plans.

Our variable compensation plans are aligned with our shareholder returns, and 2009 reinforced this fact. Due to the financial results, no corporate bonuses were awarded, while those operating units that exceeded their profitability targets were appropriately awarded. In 2010, corporate bonuses will be paid in addition to operating unit bonuses as the minimum earnings targets in most plans were achieved. The bonuses paid are at a level consistent with the improved earnings levels of the Company.

ENVIRONMENTAL

Environmental issues have also gained increasing prominence both in the world in general and in corporate governance in particular. We have had an Environmental Management and Health & Safety Board Committee for many years. We have been actively participating in the Carbon Disclosure Project since 2008. In recognition of our efforts, the Company was awarded a Carbon Disclosure Leader certificate in 2010 for excellence in climate reporting by the Conference Board of Canada. Fortunately, as a metals distributor we do not have significant environmental exposures, and we closely monitor those we do have.

2011 AND BEYOND

We will continue to emphasize strong corporate governance and look forward to continuing the current positive trends in 2011 and beyond in all areas.

ANTHONY GRIFFITHS
CHAIR OF THE BOARD

FOR THE YEAR ENDED DECEMBER 31, 2010

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 of, and should be read in conjunction with, the audited consolidated financial statements for the year ended December 31, 2010, including the notes thereto. Our annual financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. All dollar references in this report are in Canadian dollars unless otherwise stated.

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.

Unless otherwise stated, the discussion and analysis contained herein are as of February 17, 2011.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute forward-looking statements or information within the meaning of applicable securities laws. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks and uncertainties include, among other things: no assurance that future financing will be available; dilution; change of control; interest rate risk; foreign exchange risk; volatile metal prices; cyclicality of the metals industry and the industries that purchase our products; significant competition; interruption in sources of metals supply; integrating future acquisitions; collective agreements and work stoppages; environmental liabilities; changes in government regulations; failure of key computer-based systems; loss of key individuals; and the current economic climate. While we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, no assurance can be given that these expectations will prove to be correct, and such forward-looking statements included herein should not be unduly relied upon. These statements speak only as of the date hereof. Except as required by law, we do not assume any obligation to update the aforementioned forward-looking statements. Our actual results could differ materially from those anticipated in the aforementioned forward-looking statements, as applicable, including as a result of the risk factors set forth elsewhere herein and in our filings with the securities regulatory authorities which are available on SEDAR at www.sedar.com.

NON-GAAP MEASURES

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of measures that are not prescribed by 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.

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 2010 results reflect an increase in volumes and gross margins compared to 2009. Our earnings for 2010 were $70 million compared to a loss of $92 million in 2009. Earnings per share were $1.17 for 2010 compared to a loss per share of $1.54 for 2009. Our return on equity was 9%.

Our metals service center segment had a volume increase of approximately 17% for 2010 compared to 2009. This increase is consistent with statistics reported for the North American industry by the Metals Service Center Institute. After this sizable increase, our tons shipped in 2010 represent 80% of our tons shipped in 2008 when we achieved record earnings.

Our energy tubular products segment volumes increased in 2010 from 2009 due to more drilling activity mainly related to oil. Oil prices have increased compared to 2009 while natural gas pricing is flat.

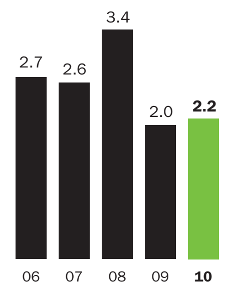
Our steel distributors segment has seen lower volume increases as uncertainty in steel pricing impacted this segment.

Our earnings have been impacted by the items noted in the following table. We have adjusted our earnings by these items to help the reader of this report better understand our operating results excluding specific items.

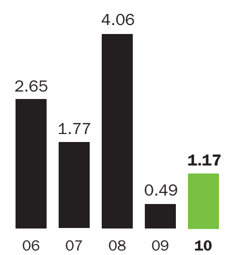
Earnings (loss) per common share		**2010**		2009
Net earnings (loss)	**$**	**1.17**	$	(1.54)
Inventory write-downs (reversals)		**(0.02)**		1.69
Asset impairment		**–**		0.41
Plant closure reserves (gain on sale of property)		**0.03**		(0.07)
Adjusted earnings	**$**	**1.18**	$	0.49

We recorded $159 million of net inventory write-downs in 2009 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. A majority of the inventory associated with the 2009 write-downs was sold in either 2009 or 2010 and the corresponding reserves for write-down reversed in the period of sale. In 2010, we reversed $1.9 million of these reserves related to inventory in our energy tubular product segment due to pricing increases.

TOTAL REVENUES
$ billions



ADJUSTED EARNINGS PER SHARE
$ per share



SUMMARIZED FINANCIAL INFORMATION

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

2010	**Quarters Ended**				**Year Ended**
(in millions, except per share data and volumes)	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Dec. 31**
Revenues	**$ 525.9**	**$ 506.1**	**$ 581.9**	**$ 561.5**	**$ 2,175.4**
Earnings from operations	**26.3**	**34.8**	**30.5**	**31.9**	**123.5**
Net earnings	**16.5**	**18.7**	**16.6**	**17.9**	**69.7**
Basic earnings per common share	**$ 0.28**	**$ 0.31**	**$ 0.28**	**$ 0.30**	**$ 1.17**
Diluted earnings					
per common share	**$ 0.28**	**$ 0.31**	**$ 0.28**	**$ 0.29**	**$ 1.16**
Market price of common shares					
High	**$ 20.40**	**$ 22.25**	**$ 21.31**	**$ 23.94**	**$ 23.94**
Low	**$ 16.59**	**$ 16.25**	**$ 17.67**	**$ 19.75**	**$ 16.25**
Shares outstanding end of quarter	**59,698,690**	**59,698,840**	**59,705,240**	**59,978,173**	**59,978,173**
Number of common shares traded	**12,412,200**	**15,424,843**	**9,071,721**	**9,272,683**	**46,181,447**

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

RESULTS OF OPERATIONS

The following table provides operating profits (loss) 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) and operating profits as a percentage of revenues for the operating segments are each 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.

(in millions, except percentages)	**2010**	2009	2008	**2010 Change as a % of 2009**	2009 Change as a % of 2008
Segment Revenues					
Metals service centers	**$ 1,212.2**	$ 1,094.7	$ 1,833.0	**11%**	(40%)
Energy tubular products	**704.3**	624.1	1,070.8	**13%**	(42%)
Steel distributors	**247.8**	244.5	450.7	**1%**	(46%)
Other	**11.1**	8.5	11.7		
	$ 2,175.4	$ 1,971.8	$ 3,366.2	**10%**	(41%)
Segment Operating Profits Excluding Inventory and Plant Closure Reserves					
Metals service centers	**$ 63.5**	$ 17.3	$ 192.8	**267%**	(91%)
Energy tubular products	**51.1**	34.8	145.6	**47%**	(76%)
Steel distributors	**20.9**	18.0	77.6	**16%**	(77%)
Corporate expenses	**(15.6)**	(13.2)	(21.2)	**(18%)**	38%
Other	**4.3**	1.7	3.3		
Operating profits	**$ 124.2**	$ 58.6	$ 398.1	**112%**	(85%)
Inventory and Plant Closure Reserves					
Metals service centers	**$ 2.6**	$ 30.4	$ 6.8		
Energy tubular products	**(1.9)**	81.9	9.1		
Steel distributors	**–**	46.4	21.8		
	$ 0.7	$ 158.7	$ 37.7		
Segment Operating Profits (Loss)					
Metals service centers	**$ 60.9**	$ (13.1)	$ 186.0	**565%**	(107%)
Energy tubular products	**53.0**	(47.1)	136.5	**213%**	(135%)
Steel distributors	**20.9**	(28.4)	55.8	**174%**	(151%)
Corporate expenses	**(15.6)**	(13.2)	(21.2)	**(18%)**	38%
Other	**4.3**	1.7	3.3		
Operating profits (loss)	**$ 123.5**	$ (100.1)	$ 360.4	**223%**	(128%)
Segment Gross Margin as a % of Revenues Excluding Inventory Write-down (Reversal)					
Metals service centers	**21.5%**	18.4%	23.9%		
Energy tubular products	**14.1%**	12.7%	22.4%		
Steel distributors	**15.2%**	13.7%	22.3%		
Total operations	**18.8%**	16.4%	23.4%		
Segment Operating Profit as a % of Revenues Excluding Inventory and Plant Closure Reserves					
Metals service centers	**5.2%**	1.6%	10.5%		
Energy tubular products	**7.3%**	5.6%	13.6%		
Steel distributors	**8.4%**	7.4%	17.2%		
Total operations	**5.7%**	3.0%	11.8%		

METALS SERVICE CENTERS

a) Description of operations

We provide processing and distribution services to a broad base of approximately 28,000 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.

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 2010, 2009 and 2008 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle with the last peak being in mid-2008 followed by a significant decline, resulting in prices in mid-2009 that were less than 50% of the 2008 peak. This steel price decline as well as a decline in demand for steel caused by the financial and economic crisis negatively impacted our results in 2009. Steel prices increased during the first half of 2010; however, due to low demand levels, prices declined slightly during the last half of 2010. Steel mills raised prices late in 2010 and price increases have continued in the first quarter of 2011.

Steel prices are influenced by overall demand, trade sanctions, iron ore pricing, 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, affects 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 served. We are most impacted by the manufacturing, resource and construction segments of the Canadian economy. Tons shipped in 2010 were approximately 17% more than those shipped in 2009, but were approximately 20% less than for 2008. Based on data from the Metals Service Center Institute, the Canadian service center industry increase in shipments for 2010 compared to 2009 was 15%, and for the U.S. was 21%.

Canadian service centers, which represent the majority of our metals service centers operations, have operations in all regions of Canada and are affected by general regional economic conditions. Our large market share and our diverse customer base of approximately 18,000 customers suggest that our results should mirror the performance of the regional economies of Canada. Our U.S. operations, which have approximately 10,000 customers, are impacted by the local economic conditions in the regions they serve.

The change in the Canadian dollar in 2010 versus 2009 decreased revenues and profits for our U.S. operations translated to Canadian dollars. Revenues and profits or losses of our U.S. operations reported for 2010 were converted at $1.0301 per US$1 compared to $1.1415 per US$1 for 2009. The exchange rate at December 31, 2010, used to translate the balance sheet was $0.9946 per US$1.

Our Canadian operations source some products outside of Canada and these products are priced in U.S. dollars. Movement in the Canadian dollar has a short-term impact on inventory pricing.

c) Metals service centers segment results – 2010 compared to 2009

Revenues for 2010 increased 11% compared to 2009. Overall tons shipped in metals service centers were approximately 17% higher than those shipped in 2009. Average selling price increased during 2010; however, the average selling price of metal in 2010 was approximately 6% lower than the average in 2009 due to high prices early in 2009.

Gross margin, as a percentage of revenues, was 21.5% for 2010 compared to 18.4% for 2009. The improvement relates to improved selling prices and the elimination of inventory holding losses.

Our average revenue per invoice for 2010 was approximately $1,453 compared to $1,409 for 2009, reflecting larger average orders in tons. In 2010, we handled approximately 3,337 transactions per day compared to 3,102 per day for 2009, an increase of 8%.

Operating expenses in 2010 were approximately $15 million, or 8%, higher than those in 2009 mainly related to higher variable compensation and freight costs due to increased volumes. In addition, we provided $3 million for the closure of our Port Robinson facility. In August 2010, we announced that in 2011 our structural steel business would be relocated to our Cambridge facility.

Metals service centers operating profits for 2010 increased to $64 million from $17 million in 2009. The significant increase was due to the rise in volumes and gross margins when compared to 2009.

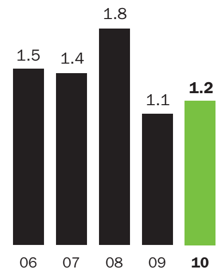
d) Metals service centers segment results – 2009 compared to 2008

Revenues in 2009 declined 40% compared to 2008. Overall tons shipped in metals service centers were approximately 32% lower than those shipped in 2008. The average selling price of metal in 2009 was approximately 16% lower than 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 were similar to those at the end of 2007 prior to the price increases in 2008.

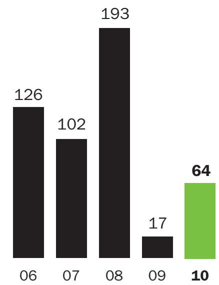
Gross margin as a percentage of revenues, excluding inventory write-downs, was 18.4% for 2009 compared to 23.9% for 2008. Pricing pressure as a result of weak demand from our customers, selling price declines led by price reductions from the mills and higher priced inventory on hand were all factors 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%.

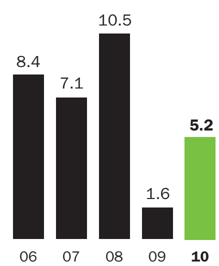
REVENUES
$ billions

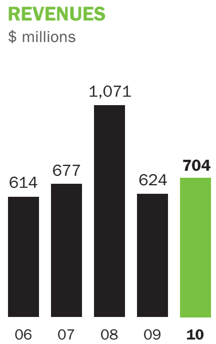


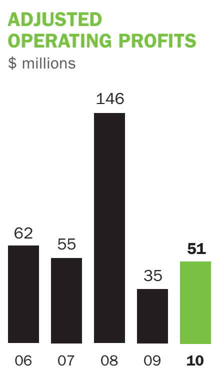
ADJUSTED OPERATING PROFITS
$ millions

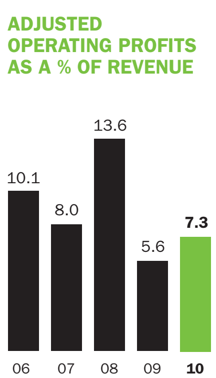


ADJUSTED OPERATING PROFITS AS A % OF REVENUE









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.

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, 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 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 results. More specific information on how these factors impacted 2010, 2009 and 2008 is found in the sections that follow.

Pricing for natural gas and oil are factors that can impact rig count and drilling activities, particularly in Western Canada. Rig activity affects demand for our products. The price of oil increased during 2010, resulting in improved rig activity in the fall of 2010. Natural gas prices are at low levels and thus drilling activity related to gas remains below historical levels, particularly in Canada.

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 have imposed duties on certain Chinese pipe, which remain in effect. These trade actions tend to reduce imports of these products as higher prices are paid at the time of import.

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.

c) Energy tubular products segment results – 2010 compared to 2009

Revenues increased 13% for 2010 compared to 2009. Our operations that service line pipe and drilling customers had a revenue increase of 47% in 2010 compared to 2009 due to volume increases partially offset by lower selling prices and lower foreign exchange rates applicable to the revenue of our U.S. operations. Our operations servicing the oil sands had a revenue decline of 36% in 2010 compared to 2009 due to capital projects which were completed in 2009 and new projects being delayed through 2010 due to economic uncertainty.

Gross margin as a percentage of revenue for 2010 was 14.1% compared to 12.7% for 2009. Increased volumes as well as reduced inventory costs in 2010 improved gross margins.

Operating expenses were $4 million higher in 2010 compared to 2009, mainly due to higher variable compensation and freight costs due to increased volumes.

This segment generated operating profits of $51 million for 2010 compared to $35 million for 2009. Operating profits in 2010 were up significantly due to higher volumes and gross margins.

d) 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 was also 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 made the markets we service very competitive, resulting in lower margins in 2009. Gross margins in 2008 were high due to demand and rising steel prices.

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

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

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 has a cut-to-length facility in Houston, Texas where it processes coil for its customers. Our steel distributors source steel both domestically and offshore. 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.

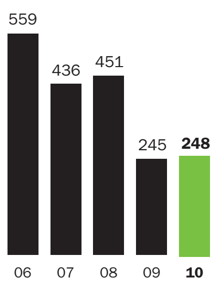
The main steel products sourced by this segment are structural beam, plate, coils, pipe and tubing; however, product volumes vary based on the economy and trade actions in North America. Our operations in this sector are Wirth Steel and Sunbelt Group. Arrow Steel, a division of Sunbelt Group, processes coil.

b) Factors affecting results

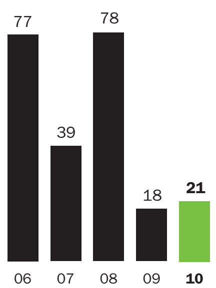
The following is a general discussion of the factors affecting our steel distributors. More specific information on how these factors impacted 2010, 2009 and 2008 is found in the sections that follow.

Steel pricing is influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. 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.

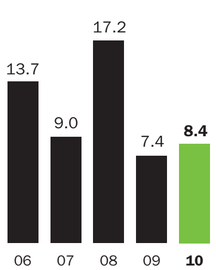
REVENUES
$ millions



ADJUSTED OPERATING PROFITS
$ millions



ADJUSTED OPERATING PROFITS AS A % OF REVENUE



Our Canadian operations source product outside of Canada that is priced in U.S. dollars. Movements in the Canadian dollar can result in some products that we have purchased being subsequently available at a lower cost. In addition, the change in the Canadian dollar in 2010 versus 2009 decreased revenues and profits for our U.S. operations translated to Canadian dollars.

Demand for steel that is sourced offshore fluctuates significantly and is mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period.

c) Steel distributors segment results – 2010 compared to 2009

Revenues for 2010 were higher by 1% and, after adjusting for exchange rate changes, were 8% higher than for 2009. Activity increased in mid-year 2010; however, it was still impacted by uncertainty of steel prices and short lead times from North American mills, which tend to result in our customers sourcing supply in North America only.

Gross margin as a percentage of revenues was 15.2% for 2010. Gross margin percentages are similar to historical levels.

Operating expenses were $1 million higher for 2010 compared to 2009, mainly related to higher variable compensation.

Operating profit for 2010 was $21 million, $3 million higher than 2009. The increase over 2009, excluding inventory write-downs, mainly related to higher volumes.

d) 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 had 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, similar to 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 related to lower volumes and steel prices.

CORPORATE EXPENSES – 2010 COMPARED TO 2009 AND 2008

Corporate expenses increased $2 million for 2010 compared to 2009. The increase mainly related to accruals for increases in the value of deferred and restricted stock units, compensation and higher fees related to our credit facility.

Corporate expenses decreased $8 million for 2009 compared to 2008. The decrease in expenses was mainly related to lower bonus expense and decreased stock compensation. This was offset by higher bank standby fees due to an increase in the bank facility in 2009.

OTHER – 2010 COMPARED TO 2009 AND 2008

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues have increased due to higher volumes of metallurgical coal and potash handled in 2010. Operating profits for 2009 were weaker than those recorded in 2008 due to lower volumes.

CONSOLIDATED RESULTS – 2010 COMPARED TO 2009 AND 2008

Operating profits from operations were $124 million for 2010, compared to $59 million in 2009 and $398 million in 2008. Our operating profits for 2010 reflect improved demand and rising prices during the first half, which increased gross margins. Lower volumes and pricing in all three segments reduced operating profits significantly for 2009 compared to 2008.

OTHER INCOME AND EXPENSE

During the first quarter of 2010, a more active market developed for the non-bank Canadian asset-backed commercial paper we had held since August 2007. We sold our notes for $6 million in April 2010 and recovered $1.5 million previously written off.

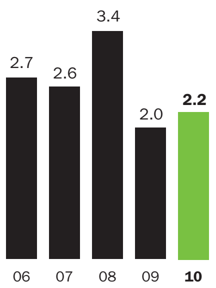
In November 2010, we gave notice of withdrawal from a multi-employer pension plan, which our Russel Metals Williams Bahcall union employees had been members of for a number of years. We have estimated our withdrawal liability to be $1 million.

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.

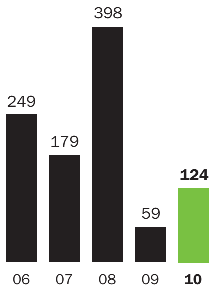
IMPAIRMENT OF ASSETS

Due to significant volume and price declines in the U.S. service center industry in 2009 and limited improvement in demand levels forecasted at the time of our review in the fourth quarter of 2009, we recorded an impairment of asset values within the JMS Russel Metals group. The impairment loss of $35 million was allocated between goodwill, intangibles and buildings.

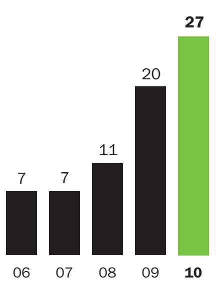
TOTAL REVENUES
$ billions



ADJUSTED TOTAL OPERATING PROFIT
$ millions

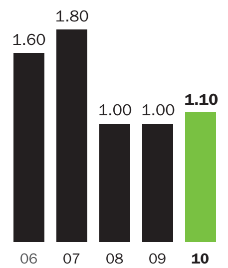


INTEREST EXPENSE
$ millions

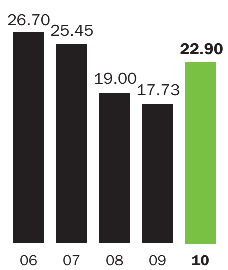


FOR THE YEAR ENDED DECEMBER 31, 2010

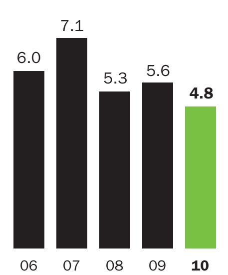
DIVIDENDS PER COMMON SHARE
$ per share



COMMON SHARE PRICE
$ per share



DIVIDEND YIELD
%



INTEREST EXPENSE

Consolidated interest expense for 2010 increased by $7 million to $27 million compared to 2009. The increase in interest expense mainly related to interest on the convertible debentures that we issued in October 2009, partially offset by decreased interest on our U.S. Senior Notes due to lower foreign exchange and a higher return on cash deposits. 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 2010, we recorded a provision for income taxes of $26 million. Our income tax rate of 27% is lower than our normalized effective income tax rate mainly due to the recognition of previously unrecorded tax benefits. We estimate our normalized effective income tax rate to be 30% for 2011.

NET EARNINGS (LOSS)

Net earnings for 2010 were $70 million compared to a loss of $92 million for 2009. Basic earnings per common share for 2010 were $1.17 compared to a loss of $1.54 per common share in 2009.

SHARES OUTSTANDING AND DIVIDENDS

The weighted average number of common shares outstanding for 2010 was 59,717,629 compared to 59,696,743 for 2009. As at December 31, 2010 and February 17, 2011, we had 59,978,173 common shares outstanding.

We paid common share dividends of $60 million or $1.00 per share in 2010 and 2009.

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 $248 million available for restricted payments. The basket is adjusted for 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.

In June 2010, we extended our syndicated bank facility to mature in June 2012. The amendment reduced fees and modified the fixed charge coverage ratio to exclude dividends from the calculation. Our ability to pay dividends is subject to 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 percentages of accounts receivable and inventories, has traditionally been in excess of borrowings plus four times the current dividend.

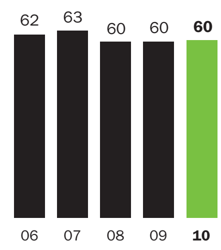
EBITDA

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

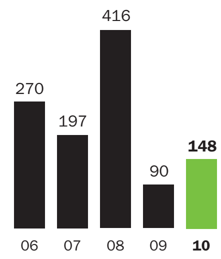
(millions)		**2010**		2009
Net earnings (loss)	**$**	**69.7**	$	(92.0)
Provision for (recovery of) income taxes		**26.2**		(58.4)
Interest expense, net		**26.7**		20.2
Earnings (loss) before interest and income taxes (EBIT)		**122.6**		(130.2)
Inventory and plant closure reserves		**0.7**		158.7
Asset impairment		**–**		35.4
Adjusted EBIT	**$**	**123.3**	$	63.9
Depreciation and amortization	**$**	**25.0**	$	25.7
Earnings (loss) before interest, income taxes, depreciation and amortization (EBITDA)	**$**	**147.6**	$	(104.5)
Adjusted EBITDA	**$**	**148.3**	$	89.6

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.

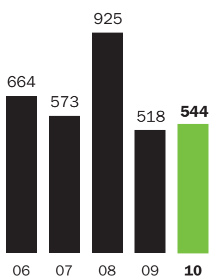
COMMON SHARES OUTSTANDING
millions



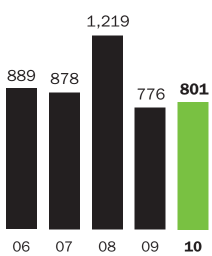
ADJUSTED EBITDA
$ millions



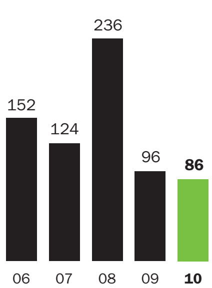
INVENTORIES
$ millions



NET ASSETS EMPLOYED
$ millions



FREE CASH FLOW
$ millions



CAPITAL EXPENDITURES

Capital expenditures were $12 million for 2010 compared to $19 million for 2009. In 2009, we spent $6 million to replace our Saskatoon facility with a larger facility. Depreciation expense was $23 million in 2010 and $24 million in 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, 2010, we had cash of $324 million compared to $360 million at December 31, 2009. Our cash position decreased $36 million in the year. Dividend payments, termination of our swaps and working capital increases were offset by cash generated from operations.

Our 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. Increased business activity in 2010 resulted in cash utilization of $86 million for increases in accounts receivable and $35 million for increases in inventory. Total assets were $1.4 billion at December 31, 2010 and 2009. Total assets excluding cash were $1.1 billion at December 31, 2010 and 2009. At December 31, 2010, current assets excluding cash represented 77% of our total assets excluding cash, versus 74% at December 31, 2009.

Cash generated from operating activities was $81 million for 2010 compared to $291 million in 2009 as the balance sheet contracted in 2009 due to the decrease in activity. During 2010, we had an $18 million decrease in cash for working capital requirements compared to a $336 million increase in 2009. Use of cash for working capital needs as earnings recover is consistent with our business model.

Cash consumed for inventory was $35 million in 2010, mainly related to an increase in average price. Inventories represented 38% of our total assets at December 31, 2010 and 36% at December 31, 2009.

Inventory by Segment

(millions)		Dec. 31 2010		Sept. 30 2010		June 30 2010		Mar. 31 2010		Dec. 31 2009
										Quarters Ended
Metals service centers	**$**	**202**	**$**	**202**	**$**	**206**	**$**	**191**	$	170
Energy tubular products		**290**		**293**		**257**		**234**		286
Steel distributors		**52**		**51**		**75**		**42**		62
Total operations	**$**	**544**	**$**	**546**	**$**	**538**	**$**	**467**	$	518

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

Inventory Turns

	Dec. 31 2010	Sept. 30 2010	June 30 2010	Mar. 31 2010	Dec. 31 2009
					Quarters Ended
Metals service centers	**4.8**	**4.9**	**4.7**	**4.5**	4.4
Energy tubular products	**2.3**	**2.2**	**1.7**	**2.9**	1.9
Steel distributors	**4.0**	**5.2**	**2.7**	**4.1**	2.6
Total operations	**3.4**	**3.5**	**3.0**	**3.7**	2.8

Our metals service centers strive to turn their inventory at rates better than the industry. 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, 2010 for Canadian service centers were 4.5 turns and for U.S. service centers were 4.8.

Inventory turns for all segments have improved at the end of 2010 compared to the end of 2009, mainly related to increased sales volumes.

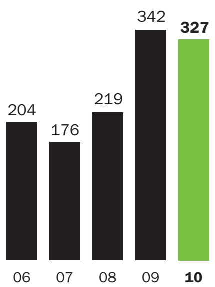
As a result of higher revenues, accounts receivable consumed cash of $86 million during 2010. Accounts receivable represented 21% of our total assets at December 31, 2010 and 15% at December 31, 2009.

During 2010, we received income tax refunds, net of payments, of $37 million compared to payments of $35 million in 2009.

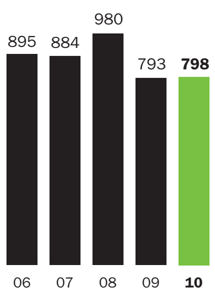
During 2010, we utilized cash of $12 million for capital expenditures, $60 million for common share dividends, $35 million to terminate our fixed interest cross currency swaps and $9 million for repayment of long-term debt. During 2009, we utilized cash of $19 million for capital expenditures and $60 million for common share dividends. In 2010, we received proceeds from the sale of property, plant and equipment of $1.5 million and $6 million from the sale of our asset-backed commercial paper. In 2009, we issued convertible debentures for net proceeds of $167 million and sold property, plant and equipment for proceeds of $6 million.

FOR THE YEAR ENDED DECEMBER 31, 2010

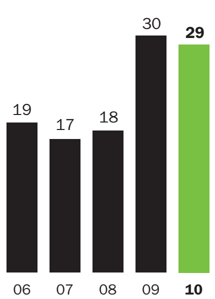
INTEREST BEARING DEBT
$ millions



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)		**2010**		2009
Cash from (used in) operating activities before working capital	**$**	**98.7**	$	(44.4)
Purchase of fixed assets		**(11.8)**		(18.6)
		86.9		(63.0)
Non-cash inventory write-down (reversal)		**(1.9)**		158.7
	$	**85.0**	$	95.7

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, 2010**		Dec. 31, 2009
Long-term debt				
6.375% US$167 million Senior Notes due March 1, 2014 (2009: US$175 million)	**$**	**164**	$	180
7.75% $175 million convertible debentures due September 30, 2016		**158**		156
Capital leases				
Arkansas development bonds, maturing 2014 to 2017		**5**		6
		327		342
Current portion		**(1)**		(1)
	$	**326**	$	341

We repurchased US$8 million of our Senior Notes in 2010.

Our $175 million convertible debentures consist of a debt and equity component. The equity portion of $12 million represents the valuation at time of issue of the holders' option to convert the convertible debentures into common shares. The equity portion and debt issue costs are amortized to income and included in interest expense.

Cash and Bank Credit Facilities

As at December 31, 2010 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ –	$ –	$ –
Cash net of outstanding cheques	295	29	324
Net cash	295	29	324
Letters of credit	(14)	(13)	(27)
	$ 281	$ 16	$ 297
Facilities			
Borrowings and letters of credit	$ 202	$ 20	$ 222
Letters of credit	50	25	75
Facilities availability	$ 252	$ 45	$ 297
Available line based on borrowing base	$ 252	$ 45	$ 297

As at December 31, 2010, we had a facility with a syndicate of Canadian and U.S. banks totaling $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 are issued under the $50 million line first and additional needs are issued under the $202 million line. On June 24, 2010, the facility was amended to reduce interest and standby charges, to remove the inclusion of dividends in the fixed charge coverage ratio and to extend the facility to June 24, 2012. 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, 2010, we were entitled to borrow or issue letters of credit totaling $252 million under this facility. At December 31, 2010 and 2009, we had no borrowings. At December 31, 2010, we had letters of credit of $14 million compared to $3 million at December 31, 2009.

In addition, a U.S. subsidiary has its own one-year bank credit facility which was renewed for one year in July 2010. The maximum borrowings including letters of credit under this facility are US$45 million. At December 31, 2010, this subsidiary had no borrowings and had letters of credit of US$13 million. At December 31, 2009, this subsidiary had no borrowings and had letters of credit of US$5 million.

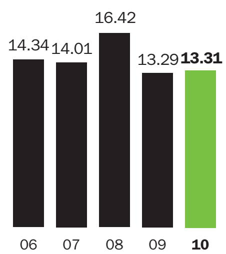
Based on cash, cash equivalents and our bank facilities, we have access to approximately $546 million of cash availability based on our December 31, 2010 balances. The use of our bank facilities has been predominantly to fund working capital requirements; however, they are available to make acquisitions. These lines will be used to support increases in working capital when volumes and steel prices increase.

CONTRACTUAL OBLIGATIONS

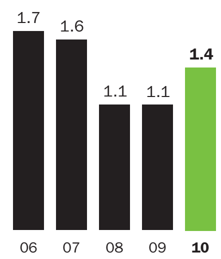
As at December 31, 2010, we were contractually obligated to make payments under our long-term debt agreements and capital and operating leases that come due in the future. See Note 15 to the financial statements for future obligations by year.

We have disclosed our obligations related to environmental litigations, regulatory actions and remediation in our Annual Information Form. The obligations are not material and relate to previously divested or discontinued non-metals operations.

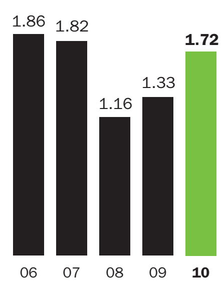
BOOK VALUE PER COMMON SHARE
$ per share



MARKET CAPITALIZATION
$ millions



MARKET CAPITALIZATION TO BOOK VALUE
times



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 17 of our 2010 annual consolidated financial statements. During 2010, we contributed $4 million to these plans. We expect to contribute approximately $4 million to these plans during 2011.

ACCOUNTING AND REPORTING CHANGES

We adopted the International Financial Reporting Standards (IFRS) effective January 1, 2011, which required us to restate our January 1, 2010 IFRS balance sheet and include 2010 comparative IFRS financial statements with our 2011 financial statements. We established a team of our unit controllers who assessed the changes required and the effect of high impact standards on their units. Our team of financial analysts assessed the impact of those standards on a consolidated basis and assessed standards related to corporate and finance matters. We have completed our review of differences between Canadian GAAP and IFRS that affect our financial statements and have prepared quantitative analysis and disclosures subject to the completion of certain outstanding items. We have summarized the differences below.

We believe that the impact of IFRS changes on our 2011 results of operations or financial position will not be material. The fair value accounting relating to our convertible debentures would have been material; however, on December 14, 2010, we obtained approval to amend the terms of our Trust Indenture governing our convertible debentures. This amendment removes the requirement to mark to market an embedded derivative in the convertible debentures for 2011 (see item g).

a) **IFRS 1, First Time Adoption –** All policy decisions with respect to applicable IFRS 1 choices were reviewed, documented and approved by senior management. Transition to IFRS disclosure, including quantitative analysis, has been prepared subject to the completion of certain outstanding items. Applicable IFRS 1 exemptions are listed below:

   IFRS exemption options

   i) Business Combinations – IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company elected to prospectively apply IFRS 3 to business combinations and as such, business combinations have not been restated. Any goodwill arising on such business combinations before the Transition Date has not been adjusted from the carrying value previously determined under Canadian GAAP.

   ii) Employee Benefits – IFRS 1 provides the option to retrospectively apply the provisions of IAS 19, Employee Benefits, for the recognition of actuarial gains and losses, or to recognize all cumulative actuarial gains and losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its Transition Date in opening retained earnings.

   iii) Currency Translation Differences – The cumulative translation adjustment is a component of accumulated other comprehensive income. Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary was acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at Transition Date. The Company elected to reset all cumulative translation gains and losses to zero and charge $24 million to opening retained earnings.

   iv) Revaluation of Property, Plant and Equipment – IFRS 1 provides an option to revalue individual items of property, plant and equipment to fair value at the Transition Date. Fair value would then become the deemed cost for the purpose of depreciation and amortization. The Company elected not to apply this exemption and continues to measure property, plant and equipment at historical cost.

   v) Borrowing Costs – IAS 23, Borrowing Costs, requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction, or production of certain assets as part of the cost of that asset. The Company utilized the IFRS 1 exemption and elected not to apply this policy to pre-transition borrowing costs and, therefore, borrowing costs prior to January 1, 2010 have been expensed.

b) **IAS 1, Presentation of Financial Statements –** IAS 1 presentation requirements have been reviewed and conversion items identified. Disclosures have been prepared and reviewed by management.

c) **IFRS 2, Share Based Payments –** The graded vesting provisions of IFRS 2 result in a charge to opening retained earnings of approximately $2 million upon transition to IFRS and a reduction in stock-based compensation expense for 2010 to 2013 for those awards issued prior to transition. In addition, cash-settled share-based awards such as restricted share units will be measured using a fair value model and will be subject to the graded vesting recognition.

d) **IAS 12, Income Taxes –** A review of IAS 12 has been completed and a gap analysis documented and approved by senior management. Transitional entries have been prepared and reviewed.

e) **IAS 16, Fixed Assets –** Under IFRS, where part of an item of property, plant and equipment is considered a component, it must be depreciated separately if it has a cost that is significant to the item as a whole and a significantly different useful life. We have completed the componentization of property, plant and equipment as required by the standard and created separate sub-ledgers for the dual reporting of 2010. The transitional adjustments to IFRS have been quantified and result in a pre-tax charge to opening retained earnings of approximately $5 million.

f) **IAS 19, Employee Benefits –** We have elected to recognize unamortized actuarial gains and losses of approximately $22 million as a pre-tax charge to retained earnings on transition. In addition, we have determined that we have a constructive obligation of approximately $2 million relating to one of our pension plans. Subsequent to transition, actuarial gains and losses will be recognized directly to other comprehensive income.

g) **IAS 32, IAS 39, IFRS 7, Financial Instruments –** The conversion feature in our convertible debentures that allowed us to settle the conversion of the debenture in cash or in a combination of cash and common shares in lieu of common shares prior to maturity was a derivative. This derivative was classified as a financial liability and was recorded at fair value on transition to IFRS resulting in a pre-tax charge to opening retained earnings of approximately $3 million. On December 14, 2010, we amended the terms of our convertible debentures to eliminate this cash conversion option prior to maturity. This amendment removed the volatility due to this item for 2011. Our 2010 IFRS comparative financial pre-tax income in our 2010 quarterly financial statements would be a decrease of $6.9 million in the first quarter, an increase of $5.8 million in the second quarter, a decrease of $8.2 million in the third quarter and a decrease of $1.8 million in the fourth quarter.

h) **IAS 36, Impairment of Assets –** Under IFRS the assessment for impairment is performed at the cash generating unit level. We have identified our cash generating units under IFRS and have finalized our evaluation of impairment upon transition, subject to management review and audit.

i) **IAS 37, Provisions, Contingent Liabilities and Contingent Assets –** IFRS requires an evaluation of legal and constructive obligations arising out of liabilities. Under IFRS we have a constructive obligation related to a historical environmental cleanup which results in a pre-tax charge to retained earnings of approximately $3 million.

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. Draft accounting policy notes have been prepared for our 2011 reporting.	Completed
Financial statement format.	Decisions with respect to financial statement presentation have been made and draft financial statements prepared.	Completed
Changes to note disclosures.	Draft notes to our 2011 financial statements have been prepared and will be revised as required.	Continuing ongoing process
Preparation of opening balance sheet.	We have drafted our January 1, 2010 balance sheet; however, certain quantitative analysis requires additional input and review and has not been finalized; therefore, our opening balance sheet will be finalized with our 2011 first quarter statements.	Continuing ongoing process

b) Training and Communication

Key Activity	Progress to Date	Timetable
Key finance staff are provided with adequate training and are knowledgeable of applicable IFRS standards.	Our conversion team leaders continue to attend various IFRS update and training courses. IFRS standard requirements have been communicated to other finance staff.	Continuing ongoing process
Education of senior management team and Board of Directors.	Training on IFRS and Canadian GAAP differences was provided to our Board of Directors and our operating unit management by our IFRS conversion team. Quarterly updates on the conversion process were provided to our 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 were assessed with respect to additional information required under IFRS.	Completed
Creation of additional ledgers in IT system for dual reporting requirements for 2010.	Multiple year sub-ledgers were created, populated and balanced.	Completed

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.	As the processes have not changed significantly, no significant changes to internal controls have been identified except for an additional level of review by IFRS team leaders.	Completed

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 we believe are 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 which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was 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, 2010 approximates our reserve at December 31, 2009; however, our accounts receivable balance is significantly higher. Bad debt expense for 2010 as a percentage of revenue approximates that of 2009.

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. The inventory reserve level at December 31, 2010 decreased compared to the level at December 31, 2009 mainly due to the sale of inventory that was written down. During 2010, we decreased cost of sales by $1.9 million related to inventory write-down reversals.

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 $87 million in plan assets at December 31, 2010, which is an increase of approximately $7 million from December 31, 2009. Accrued benefit obligations were $97 million at December 31, 2010 and $98 million at December 31, 2009.

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, 2010. 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 added to our platform for growth in the Southeastern and Midwestern regions of the United States. We believe 2011 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 that the high level of service and flexibility provided by service centers will enable this distribution channel to capture an increasing percentage of total steel revenues to end users, allowing for increased growth within the sector.

RISK

The timing and extent of future price changes from 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 is at approximately 80% of pre-2009 levels and we cannot predict when or if it will return to pre-2009 levels. Our Annual Information Form includes a summary of risks.

FOURTH QUARTER RESULTS

The following table provides operating profit 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)	**2010**	2009	2010 Change as a % of 2009
Segment Revenues			
Metals service centers	**$ 304.3**	$ 235.9	29%
Energy tubular products	**193.1**	147.3	31%
Steel distributors	**61.1**	46.7	31%
Other	**3.0**	2.8	
	$ 561.5	$ 432.7	30%
Segment Operating Profits Excluding Inventory Write-down			
Metals service centers	**$ 12.9**	$ 6.7	93%
Energy tubular products	**16.6**	1.4	1,086%
Steel distributors	**4.8**	2.4	100%
Corporate expenses	**(4.1)**	(3.8)	(8%)
Other	**1.7**	1.1	
Operating profits	**$ 31.9**	$ 7.8	309%
Segment Gross Margin as a % of Revenues Excluding Inventory Write-down			
Metals service centers	**20.0%**	21.0%	
Energy tubular products	**15.3%**	7.1%	
Steel distributors	**14.9%**	13.3%	
Total operations	**18.3%**	15.9%	
Segment Operating Profits as a % of Revenues Excluding Inventory Write-down			
Metals service centers	**4.2%**	2.8%	
Energy tubular products	**8.6%**	1.0%	
Steel distributors	**7.9%**	5.1%	
Total operations	**5.7%**	1.8%	

Fourth quarter results for 2010 were strong compared to third quarter 2010. Our earnings per share for the fourth quarter of 2010 were $0.30. The seasonal pickup in our energy tubular products segment, resulted in higher volumes and gross margins, contributed to our strong results. Tons shipped in the fourth quarter of 2010 for metals service centers were approximately 1% higher than for the third quarter of 2010, although gross margins were 1% lower due to softening of prices early in the quarter. Earnings in the fourth quarter of 2010 were negatively impacted by a $1 million charge related to our withdrawal from a multi-employer pension plan and were favourably impacted by the recognition of previously unrecorded capital losses.

OUTLOOK

The first quarter of 2011 has continued the positive momentum we exited 2010 with, and we see improved results for the first half of 2011. It is too early to tell whether demand improvements will continue or level off, which will impact steel pricing, thus we remain cautious beyond the first half of 2011.

February 17, 2011

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, 2010, 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 and the management's discussion and analysis 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 17, 2011

B. R. Hedges
President and
Chief Executive Officer

M. E. Britton
Vice President and
Chief Financial Officer

To the Shareholders of Russel Metals Inc.

We have audited the accompanying consolidated financial statements of Russel Metals Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, 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, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Russel Metals Inc. as at December 31, 2010 and December 31, 2009, 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

February 17, 2011
Toronto, Ontario

At December 31 (millions)		**2010**		2009
ASSETS				
Current				
Cash and cash equivalents	**$**	**323.7**	$	359.6
Accounts receivable		**301.4**		217.8
Inventories (Note 5)		**544.1**		517.9
Prepaid expenses and other assets		**3.0**		4.9
Income taxes		**4.8**		53.0
		1,177.0		1,153.2
Property, Plant and Equipment (Note 6)		**215.7**		231.9
Future Income Tax Assets (Note 12)		**3.8**		5.9
Pensions and Benefits (Note 17)		**9.9**		8.0
Other Assets (Note 7)		**3.8**		8.3
Goodwill and Intangibles (Note 4)		**26.9**		28.4
	$	**1,437.1**	$	1,435.7
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**$**	**281.3**	$	252.3
Income taxes payable		**15.4**		1.4
Current portion long-term debt (Note 9)		**1.2**		1.3
		297.9		255.0
Derivatives (Note 9)		**–**		30.9
Long-Term Debt (Note 9)		**325.5**		340.8
Pensions and Benefits (Note 17)		**5.9**		5.9
Future Income Tax Liabilities (Note 12)		**9.7**		9.9
		639.0		642.5
Shareholders' Equity (Note 13)				
Common shares		**483.7**		478.9
Retained earnings		**325.3**		315.3
Contributed surplus		**12.5**		11.4
Accumulated other comprehensive income (loss)		**(35.0)**		(24.0)
Equity component of convertible debenture (Note 9)		**11.6**		11.6
		798.1		793.2
	$	**1,437.1**	$	1,435.7

On behalf of the Board,

A. Benedetti
Director

L. Lachapelle
Director

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

For the years ended December 31 (millions, except per share data)	**2010**	2009
Revenues	**$ 2,175.4**	$ 1,971.8
Cost of sales	**1,764.9**	1,807.6
Gross margin	**410.5**	164.2
Operating expenses	**287.0**	264.3
Earnings (loss) before the following	**123.5**	(100.1)
Other income (expense) (Note 10)	**(0.9)**	5.3
Impairment of goodwill and intangibles (Note 4)	**–**	(33.8)
Impairment of property, plant and equipment (Note 6)	**–**	(1.6)
Interest expense, net (Note 11)	**(26.7)**	(20.2)
Earnings (loss) before income taxes	**95.9**	(150.4)
(Provision for) recovery of income taxes (Note 12)	**(26.2)**	58.4
Net earnings (loss)	**$ 69.7**	$ (92.0)
Basic earnings (loss) per common share	**$ 1.17**	$ (1.54)
Diluted earnings (loss) per common share	**$ 1.16**	$ (1.54)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 (millions)	**2010**	2009
Retained earnings, beginning of the year	**$ 315.3**	$ 467.0
Net earnings (loss) for the year	**69.7**	(92.0)
Dividends on common shares	**(59.7)**	(59.7)
Retained earnings, end of the year	**$ 325.3**	$ 315.3

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)		**2010**		2009
Net earnings (loss)	**$**	**69.7**	$	(92.0)
Other comprehensive income (loss) (Note 14)				
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations		**(17.5)**		(67.4)
Reclassification adjustment for realized foreign exchange gain included in net income		**0.1**		0.5
Unrealized gains (losses) on items designated as net investment hedges		**8.8**		9.5
Unrealized gains (losses) on items designated as cash flow hedges		**(2.5)**		(12.1)
Gains (losses) on derivatives designated as cash flow hedges transferred to net income in the current period		**0.1**		15.2
Other comprehensive income (loss)		**(11.0)**		(54.3)
Comprehensive income (loss)	**$**	**58.7**	$	(146.3)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the years ended December 31 (millions)		**2010**		2009
Accumulated net unrealized foreign currency translation gains and losses				
Balance, beginning of year	**$**	**(30.0)**	$	36.9
Unrealized foreign exchange gains (losses) on translation of self-sustaining U.S. operations		**(17.5)**		(67.4)
Reclassification adjustment for realized foreign exchange gain included in net income		**0.1**		0.5
Balance, end of the year		**(47.4)**		(30.0)
Accumulated net unrealized gain (loss) on cash flow and net investment hedges				
Balance, beginning of year		**6.0**		(12.0)
Transitional adjustment (net of income tax of $2.0) (Note 2)		**–**		5.4
Unrealized gains (losses) on items designated as net investment hedges		**8.8**		9.5
Unrealized gains (losses) on items designated as cash flow hedges		**(2.5)**		(12.1)
Gains (losses) on derivatives designated as cash flow hedges transferred to net income in the current period		**0.1**		15.2
Balance, end of the year		**12.4**		6.0
Accumulated other comprehensive income (loss)	**$**	**(35.0)**	$	(24.0)

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

For the years ended December 31 (millions)		**2010**		2009
Operating activities				
Net earnings (loss) for the year	**$**	**69.7**	$	(92.0)
Depreciation and amortization		**25.0**		25.7
Future income taxes		**0.6**		(10.1)
Loss (gain) on sale of property, plant and equipment		**0.7**		(4.3)
Stock-based compensation		**1.9**		2.1
Difference between pension expense and amount funded		**(1.9)**		(1.4)
Asset impairment		**–**		35.4
Debt accretion, amortization and other		**2.7**		0.2
Cash from (used in) operating activities before non-cash working capital		**98.7**		(44.4)
Changes in non-cash working capital items				
Accounts receivable		**(86.3)**		200.1
Inventories		**(34.8)**		356.5
Accounts payable and accrued liabilities		**31.8**		(156.7)
Current income taxes		**69.2**		(67.6)
Other		**2.1**		3.2
Change in non-cash working capital		**(18.0)**		335.5
Cash from operating activities		**80.7**		291.1
Financing activities				
Decrease in bank borrowing		**–**		(64.9)
Issue of common shares (Note 13)		**4.0**		–
Swap termination		**(35.2)**		–
Issuance of long-term debt		**–**		167.1
Dividends on common shares		**(59.7)**		(59.7)
Repayment of long-term debt		**(9.2)**		(1.5)
Deferred financing		**(0.7)**		(2.5)
Cash (used in) from financing activities		**(100.8)**		38.5
Investing activities				
Purchase of property, plant and equipment		**(11.8)**		(18.6)
Proceeds on sale of property, plant and equipment		**1.5**		5.6
Proceeds on sale of investment		**6.0**		–
Other		**(0.5)**		–
Cash used in investing activities		**(4.8)**		(13.0)
Effect of exchange rate changes on cash and cash equivalents		**(11.0)**		(1.9)
(Decrease) increase in cash and cash equivalents		**(35.9)**		314.7
Cash and cash equivalents, beginning of the year		**359.6**		44.9
Cash and cash equivalents, end of the year	**$**	**323.7**	$	359.6

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 subsidiaries herein referred to as the Company. The reporting currency is Canadian dollars unless otherwise noted. All inter-company balances, transactions and profits have been eliminated.

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

b) Cash and cash equivalents

Cash and cash equivalents includes demand deposits, bank term deposits, and investment grade short-term investments with a maturity of less than three months at time of purchase. At December 31, 2010, short-term investments were $149.8 million (2009: $110.0 million) and cash on deposit in bank accounts including demand deposits, net of outstanding cheques, was $173.9 million (2009: $249.6 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 estimated to be not 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, primarily 10 to 25 years for machinery and equipment and over the lease term for leasehold improvements. Depreciation expense was $23.1 million in 2010 (2009: $24.1 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 $1.3 million in 2010 (2009: $0.8 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 4).

Intangible assets are recorded at cost, which for business acquisitions represents the fair value at the date of acquisition, and are comprised of customer lists. Customer lists are amortized on a straight-line basis over their estimated useful life, fifteen years. Amortization of customer lists was $0.6 million for the year ended December 31, 2010 (2009: $0.8 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 0.9946 at December 31, 2010 (2009: 1.0466). Revenues and expenses are translated at the average rate of exchange during the year. For 2010, the U.S. dollar published average exchange rate was 1.0301 (2009: 1.1415). 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 9) denominated in a foreign currency designated as a hedge of the Company's net investment in foreign subsidiaries are included in other comprehensive income (loss).

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 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 2010 was 59,717,629 (2009: 59,696,743). 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 are recognized through income in the same period or manner as the item being hedged. Realized and unrealized foreign exchange gains and losses not designated as a hedge are included in income. Derivatives are not entered into for speculative purposes, and the use of derivative contracts is governed by documented risk management policies.

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

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

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 operation.

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.

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.

During 2009, the CICA issued Handbook section 1582, Business Combinations, and section 1601, Consolidated Financial Statements. These sections replaced 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. GOODWILL AND INTANGIBLES

a) Components of goodwill and intangibles are as follows:

(millions)		**2010**		2009
Customer lists – metals service centers	**$**	**7.3**	$	8.3
Goodwill – metals service centers		**18.2**		18.7
Goodwill – energy tubular products		**1.4**		1.4
	$	**26.9**	$	28.4

The continuity of goodwill is as follows:

(millions)		**2010**		2009
Balance – January 1	**$**	**20.1**	$	60.5
Foreign exchange		**(0.5)**		(7.3)
Impairment charge		**–**		(33.1)
Balance – December 31	**$**	**19.6**	$	20.1

The continuity of intangibles is as follows:

(millions)		**2010**		2009
Balance – January 1	**$**	**8.3**	$	9.2
Amortization		**(0.6)**		(0.6)
Foreign exchange		**(0.4)**		0.4
Impairment – customer lists		**–**		(0.7)
Balance – December 31	**$**	**7.3**	$	8.3

b) Impairment of goodwill and intangibles

The Company completed its goodwill and long-lived assets impairment tests during the fourth quarter of 2010 and 2009. No impairment was required for 2010. For the year ended December 31, 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 an impairment of $33.8 million was recorded in 2009.

5. INVENTORIES

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. During the year ended December 31, 2010, inventories of $1.8 billion (2009: $1.8 billion) were expensed through cost of sales and $1.9 million (2009: $3.0 million) of previous write-downs were reversed due to price increases on certain products. In 2009, inventory write-downs to net realizable value of $161.7 million were recorded.

6. PROPERTY, PLANT AND EQUIPMENT

(millions)			**2010**			2009
	Cost	**Accumulated Depreciation**	**Net**	Cost	Accumulated Depreciation	Net
Land and buildings	**$ 184.0**	**$ (62.1)**	**$ 121.9**	$ 186.7	$ (57.5)	$ 129.2
Machinery and equipment	**259.2**	**(173.5)**	**85.7**	261.0	(167.1)	93.9
Leasehold improvements	**26.9**	**(18.8)**	**8.1**	26.9	(18.1)	8.8
	$ 470.1	**$ (254.4)**	**$ 215.7**	$ 474.6	$ (242.7)	$ 231.9

Land included in land and buildings was $24.1 million (2009: $23.4 million).

On August 23, 2010, the Company announced the closure of one of its Ontario operations. Plant closure costs of $2.6 million, including $1.3 million related to asset impairment, have been recorded in operating expenses. During 2010, no other impairment loss was recorded. 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, 2010, 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 of removal ranged from 0.1% to 50% and the discount rate used was 9% (2009: 9%). The asset retirement obligation, including applicable accretion at December 31, 2010, was $0.7 million (2009: $0.6 million) and the undiscounted expected cash flow relating to its asset retirement obligation was $1.6 million (2009: $1.6 million).

7. OTHER ASSETS

(millions)	**2010**	2009
Investment in asset-backed commercial paper	**$ –**	$ 4.5
Deferred charges on short-term revolving credit facility	**1.0**	1.8
Other	**2.8**	2.0
	$ 3.8	$ 8.3

The Company held an investment in non-bank Canadian asset-backed commercial paper which was included in other assets at December 31, 2009. On April 5, 2010, the Company completed the sale of this investment for net proceeds of $6.0 million and a gain on the investment of $1.5 million (Note 10).

8. REVOLVING CREDIT FACILITIES

On June 24, 2010, the Company extended its credit agreement with a syndicate of banks. The renewed agreement provides a credit facility of $202.5 million available for borrowings and letters of credit, an additional $50 million for letters of credit, decreased interest and standby fees and adjustment to the fixed charge coverage ratio covenant to exclude dividends from the calculation. The Company incurred costs of $0.7 million to renew the facility, which have been included as deferred charges in other assets (Note 7). The facility expires on June 2012. 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, 2010. 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, 2010, the Company had no borrowings (2009: $nil) and letters of credit of $14.5 million (2009: $3.0 million).

On July 28, 2010, the Company renewed its U.S. subsidiary credit facility and increased the maximum available under this facility to US$45 million. At December 31, 2010, this subsidiary had no borrowings (2009: $nil) and letters of credit of US$12.9 million (2009: US$5.3 million).

9. LONG-TERM DEBT

(millions)		**2010**		2009
6.375% US$167.2 million Senior Notes due March 1, 2014	**$**	**163.7**	$	179.7
7.75% $175 million convertible debentures due September 30, 2016		**158.1**		156.2
Capital lease obligations		**4.9**		6.2
Less: current portion		**(1.2)**		(1.3)
	$	**325.5**	$	340.8

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) the 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.

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. During the year ended December 31, 2010, interest expense and notional interest recorded were $13.6 million and $2.1 million, respectively (2009: $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%. During 2010, the Company repurchased US$7.8 million Senior Notes and the Company designated the remaining US$167.2 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

Concurrent with the issue of the U.S. Senior Notes, 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 January 22, 2010, the Company terminated these swaps and 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 Senior Notes as a hedge of its net investment in foreign subsidiaries. During the year ended December 31, 2010, $1.6 million related to the swap was reclassified from accumulated other comprehensive income (loss) to net earnings before income taxes.

The US$167.2 million Senior Notes are redeemable, in whole or in part, at the option of the Company 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, 2010.

10. OTHER INCOME (EXPENSE)

(millions)		**2010**		2009
Gain on sale of property, plant and equipment	**$**	**–**	$	4.3
Gain on investment (Note 7)		**1.5**		0.6
Multi-employer pension liability		**(1.1)**		–
Other		**(1.3)**		0.4
	$	**(0.9)**	$	5.3

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.

On November 19, 2010, the Company provided to the trustee a Notice of Withdrawal from its multi-employer pension plan relating to its Russel Metals Williams Bahcall operation. The Company's estimated withdrawal liability from this multi-employer pension plan is included in other expense.

11. INTEREST EXPENSE, NET

(millions)		**2010**		2009
Interest on long-term debt	**$**	**28.0**	$	19.6
Other interest (income) expense, net		**(1.3)**		0.6
	$	**26.7**	$	20.2

Total interest paid in 2010 was $26.2 million (2009: $16.4 million).

12. INCOME TAXES

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

(millions)	**2010**	2009
Future income tax assets		
Tax benefit of loss carry forward	**$ 0.1**	$ 0.9
Property, plant and equipment	**(4.0)**	(3.6)
Pensions and benefits	**0.7**	0.7
Goodwill and intangibles	**6.9**	7.8
Other timing	**0.1**	0.1
Total future income tax assets	**3.8**	5.9
Future income tax liabilities		
Property, plant and equipment	**(8.5)**	(9.2)
Pensions and benefits	**(0.6)**	(0.6)
Goodwill and intangibles	**0.3**	–
Items charged or credited to equity	**(1.7)**	(1.1)
Other timing	**0.8**	1.0
Total future income tax liabilities	**(9.7)**	(9.9)
Net future income taxes	**$ (5.9)**	$ (4.0)

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

	2010	2009
Average combined statutory rate	**29.4%**	31.2%
Rate difference of U.S. companies	**0.2%**	6.3%
Recognition of previously unrecorded tax benefits	**(3.4%)**	1.6%
Statutory tax rate changes	**–**	0.3%
Stock compensation and non deductible items	**1.2%**	(0.7%)
Other	**–**	0.1%
Average effective tax rate	**27.4%**	38.8%

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

(millions)	**2010**	2009
Current provision	**$ 25.6**	$ (47.8)
Future provision	**0.6**	(10.1)
Statutory rate adjustments	**–**	(0.5)
	$ 26.2	$ (58.4)

d) Income taxes refunded, net of payments, in 2010 were $36.8 million (2009 payments of: $27.3 million).

e) At December 31, 2010, the Company had unrecognized capital losses available of $20.4 million (2009: $39.6 million) which do not expire. A valuation allowance has been recorded as the realization of these losses is not more likely than not.

13. SHAREHOLDERS' EQUITY

a) At December 31, 2010 and 2009, 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, 2008	59,695,290	$	478.8
Stock options exercised	3,400		0.1
Balance, December 31, 2009	59,698,690		478.9
Stock options exercised	279,483		4.8
Balance, December 31, 2010	**59,978,173**	**$**	**483.7**

The continuity of contributed surplus is as follows:

(millions)		**2010**		2009
Balance, January 1	**$**	**11.4**	$	9.4
Stock-based compensation expense		**1.9**		2.1
Exercise of options		**(0.8)**		(0.1)
Balance, December 31	**$**	**12.5**	$	11.4

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			
	2010	2009		**2010**		2009
Balance, January 1	**2,702,084**	2,745,926	**$**	**24.52**	$	26.46
Granted	**289,411**	292,558		**19.84**		16.58
Exercised	**(279,483)**	(3,400)		**14.19**		11.99
Expired or forfeited	**(27,350)**	(333,000)		**25.52**		33.70
Balance, December 31	**2,684,662**	2,702,084	**$**	**25.08**	$	24.52
Exercisable	**1,813,063**	1,577,833	**$**	**25.64**	$	23.55

The outstanding options had an exercise price range as follows:

(number of options)	**2010**	2009
$ 25.75 – $ 33.81	**1,922,826**	1,943,826
$ 15.86 – $ 25.74	**542,336**	292,158
$ 9.16 – $ 15.85	**154,700**	328,300
$ 3.00 – $ 9.15	**64,800**	137,800
Options outstanding	**2,684,662**	2,702,084

The options expire in the years 2011 to 2020 and have a weighted average remaining contractual life of 5.8 years (2009: 6.2 years).

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

	2010	2009
Dividend yield	**5%**	5%
Expected volatility	**42%**	42%
Expected life	**5 yrs**	5 yrs
Risk free rate of return	**4%**	4%
Weighted average fair value of options granted	**$ 5.31**	$ 4.48

For the year ended December 31, 2010, compensation expense for stock options was $1.9 million (2009: $2.1 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, 2010, there were 65,827 DSUs outstanding (2009: 49,447). Compensation expense relating to DSUs for the year ended December 31, 2010 was $0.6 million (2009: $0.3 million).

e) The Company has established a Restricted Share Unit (RSU) plan for certain senior executives. An 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 vest over three years. At December 31, 2010, there were 216,629 RSUs issued and outstanding (2009: 206,037) under the plan. Compensation expense relating to RSUs for the year ended December 31, 2010 was $1.7 million (2009: $1.2 million).

The DSU and RSU plans accrue dividend equivalents payable in additional units in an amount equal to dividends paid on common shares.

f) Diluted share amounts were computed as follows:

(number of shares)	**2010**	2009
Weighted average shares outstanding	**59,717,629**	59,696,743
Dilution impact of stock options	**124,395**	38,195
Dilution impact of convertible debentures	**–**	–
Diluted weighted average shares outstanding	**59,842,024**	59,734,938

As at December 31, 2010 and 2009, the effect of the conversion of the convertible debentures under the “if converted” method would be 6,796,117 shares (2009: 1,582,657) but the effect is anti-dilutive and has therefore been excluded from the computation of diluted earnings per share.

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, 2010, the Company repurchased US$7.8 million of its Senior Notes. 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.

14. OTHER COMPREHENSIVE INCOME (LOSS)

Unrealized gains (losses) on items designated as net investment hedges are net of income taxes of $(1.3) million (2009: $(1.1) million). Unrealized gains (losses) on items designated as cash flow hedges are net of income taxes of $1.1 million (2009: $5.2 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 $0.1 million (2009: $(4.1) million).

15. 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 financial 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, 2010 and 2009 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, 2010 was $199.5 million (2009: $184.7 million). The fair value of the Company's US$167.2 million (2009: US$175 million) 6.375% Senior Notes at December 31, 2010 was US$168.5 million (2009: US$164.5 million).

As at December 31, 2010 and 2009, the estimated fair value of other financial assets and liabilities approximates their carrying values.

As at December 31, 2010, the Company was contractually obligated to make payments under its long-term debt 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
2011	$ –	$ 24.5	$ 12.7	$ 37.2
2012	–	24.4	10.4	34.8
2013	–	24.3	7.5	31.8
2014	166.3	18.1	5.1	189.5
2015	–	13.6	2.5	16.1
2016 and beyond	175.0	10.2	4.0	189.2
Total	$ 341.3	$ 115.1	$ 42.2	$ 498.6

As at December 31, 2010 the Company was contractually obligated to make payments under capital leases as follows:

(millions)		
2011	$	1.6
2012		1.5
2013		1.5
2014		0.7
2015		0.3
Total minimum lease payments		5.6
Interest at rates varying between 1.2% and 14.9%		(0.7)
Net minimum lease payments		4.9
Less: current portion		(1.2)
Long-term portion	$	3.7

The following table presents the fair value hierarchy of financial instruments by level as at December 31, 2010:

	December 31, 2010			December 31, 2009		
(millions)	**Level One**	**Level Two**	**Level Three**	Level One	Level Two	Level Three
Financial assets and liabilities						
Cash and cash equivalents	**$ 323.7**	**$ –**	**$ –**	$ 359.6	$ –	$ –
Asset-backed commercial paper	**–**	**–**	**–**	–	–	4.5
Swaps	**–**	**–**	**–**	–	(34.7)	–
Total	**$ 323.7**	**$ –**	**$ –**	$ 359.6	$ (34.7)	$ 4.5

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 2010, no one customer accounted for more than 3% of our total revenues. At December 31, 2010, 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 and short-term investments. The Company mitigates this risk by entering into forward contracts 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 is 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 one year to manage foreign exchange risk on certain future committed cash outflows. As at December 31, 2010, the Company had outstanding forward foreign exchange contracts in the amount of US$22.5 million, maturing in the first half of 2011 (2009: US$4.4 million), and the fair value of forward contracts was a loss of $0.3 million (2009: $nil). The foreign exchange gain on U.S. dollar-denominated financial assets and liabilities was $1.1 million (2009: $3.3 million).

In order to mitigate its foreign exchange exposure, the Company has designated its US$167.2 million Senior Notes as a hedge of its net investment in foreign subsidiaries.

16. SEGMENTED INFORMATION

The Company conducts business primarily in three metals business segments.

i) Metals service centers

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

ii) Energy tubular products

The Company's energy tubular products operations distribute oil country tubular products, line pipe, tubes, valves and fittings, primarily to the energy 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 offshore.

The Company has segmented its operations on the basis of type of customer, management reporting and geographic segments in which it operates. During 2010, the inter-segment sales from steel distributors to metals service centers were $26.4 million (2009: $37.6 million) and there were no inter-segment sales from steel distributors to energy tubular division (2009: $45.0 million). These sales, which are at market rates, are eliminated in the table following.

a) Results by business segment:

(millions)		**2010**		2009
Segment revenues				
Metals service centers	**$**	**1,212.2**	$	1,094.7
Energy tubular products		**704.3**		624.1
Steel distributors		**247.8**		244.5
		2,164.3		1,963.3
Other		**11.1**		8.5
	$	**2,175.4**	$	1,971.8
Segment operating profits (losses)				
Metals service centers	**$**	**60.9**	$	(13.1)
Energy tubular products		**53.0**		(47.1)
Steel distributors		**20.9**		(28.4)
		134.8		(88.6)
Corporate expenses		**(15.6)**		(13.2)
Other income		**4.3**		1.7
	$	**123.5**	$	(100.1)
Capital expenditures				
Metals service centers	**$**	**11.0**	$	17.3
Energy tubular products		**0.6**		1.0
Steel distributors		**0.1**		0.1
Other		**0.1**		0.2
	$	**11.8**	$	18.6
Depreciation expense				
Metals service centers	**$**	**20.0**	$	20.8
Energy tubular products		**1.7**		1.8
Steel distributors		**0.4**		0.5
Other		**1.0**		1.0
	$	**23.1**	$	24.1
Identifiable assets				
Metals service centers	**$**	**572.9**	$	515.7
Energy tubular products		**417.2**		375.0
Steel distributors		**82.2**		87.7
Identifiable assets by segment		**1,072.3**		978.4
Assets not included in segments				
Cash		**323.7**		359.6
Income tax assets		**8.6**		58.9
Deferred financing charges		**1.0**		1.8
Other assets		**2.8**		14.5
Corporate and other operating assets		**28.7**		22.5
Total assets	**$**	**1,437.1**	$	1,435.7

b) Results by geographic segment:

(millions)		**2010**		2009
Segment revenues				
Canada	**$**	**1,541.9**	$	1,422.0
United States		**622.4**		541.3
	$	**2,164.3**	$	1,963.3
Segment operating profits (losses)				
Canada	**$**	**94.6**	$	22.9
United States		**40.2**		(111.5)
	$	**134.8**	$	(88.6)
Identifiable assets				
Canada	**$**	**796.9**	$	670.3
United States		**275.4**		308.1
	$	**1,072.3**	$	978.4

17. PENSIONS AND BENEFITS

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

Number of Plans	Valuation Date
1	December 31, 2009
7	January 1, 2010

All of the Company's pension plans had a measurement date of December 31, 2010.

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

(millions)		**2010**		2009
Defined benefit pension plans				
Benefits earned during the year	**$**	**2.4**	$	1.8
Interest cost on benefit obligation		**4.8**		5.2
Expected return on plan assets		**(5.1)**		(5.0)
Valuation allowance adjustment		**–**		(0.5)
Other		**1.0**		0.4
		3.1		1.9
Post-retirement benefits		**0.3**		0.4
Defined contribution plans – contributions		**1.7**		1.4
Pension and benefit expense	**$**	**5.1**	$	3.7

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

	2010	2009
Assumed discount rate – year end	**5.25%**	5.25%
Discount rate	**5.25%**	7.00%
Expected long-term rate of return on plan assets	**6.00%**	6.50%
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, executive plans and other benefit plans, excluding those which are in the process of being wound up.

	Pension Plans		Other Benefit Plans	
(millions)	**2010**	2009	**2010**	2009
Reconciliation of accrued benefit obligation				
Balance, January 1	**$ 97.7**	$ 74.2	**$ 7.6**	$ 5.8
Current service cost	**2.4**	1.8	**–**	–
Participant contribution	**0.2**	0.3	**–**	–
Interest cost	**4.8**	5.2	**0.3**	0.4
Benefits paid	**(4.1)**	(3.8)	**(0.2)**	(0.3)
Plan amendments	**0.1**	–	**–**	–
Actuarial (gain) loss	**(4.0)**	20.0	**(2.2)**	1.7
Balance, December 31	**$ 97.1**	$ 97.7	**$ 5.5**	$ 7.6
Reconciliation of fair value of plan assets				
Balance, January 1	**$ 80.1**	$ 71.9	**$ –**	$ –
Actual return on plan assets	**5.8**	8.4	**–**	–
Employer contributions	**5.0**	3.3	**0.2**	0.3
Employee contributions	**0.2**	0.3	**–**	–
Benefits paid	**(4.1)**	(3.8)	**(0.2)**	(0.3)
Balance, December 31	**$ 87.0**	$ 80.1	**$ –**	$ –
Unamortized amounts				
Funded status – (deficit)	**$ (10.1)**	$ (17.6)	**$ (5.5)**	$ (7.6)
Unrecognized prior service cost	**1.6**	1.7	**–**	–
Unamortized net actuarial loss	**18.4**	23.9	**(0.4)**	1.7
Accrued benefit asset (liability)	**$ 9.9**	$ 8.0	**$ (5.9)**	$ (5.9)

As at December 31, 2010, five 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, 2009, seven of the plans in the above table had unfunded obligations and all executive plans had unfunded obligations.

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

(millions)		**2010**		2009
Defined contribution plans				
Fair value of plan assets				
Canadian plans	**$**	**5.7**	$	5.7
401(k) U.S. plans		**26.8**		24.9
	$	**32.5**	$	30.6

c) As at December 31, 2010, approximately 50% of all pension plan assets were invested in equities, 21% in fixed income securities, and 29% 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
2011	$	4.5	$	0.4	$	4.9
2012		4.6		0.4		5.0
2013		4.8		0.4		5.2
2014		5.1		0.4		5.5
2015		5.3		0.4		5.7
2016–2020		32.0		2.2		34.2

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

(millions)		**2010**		2009
Current service costs	**$**	**2.4**	$	1.8
Interest on accrued benefit obligation		**4.8**		5.2
Actual return on assets		**(5.8)**		(8.4)
Actuarial loss (gain) on accrued benefit obligation		**(0.5)**		20.0
Prior service costs		**0.1**		–
Elements of future benefit costs		**1.0**		18.6
Adjustments to recognize the long-term nature of employee benefit costs:				
Difference between expected and actual return on assets		**0.8**		4.9
Difference between actuarial losses recognized and actuarial losses incurred		**1.2**		(21.3)
Difference between prior service costs recognized and prior service costs incurred		**0.1**		(0.3)
Defined benefit cost recognized	**$**	**3.1**	$	1.9

18. 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.

d) On November 28, 2008, the Company purchased Norton Metal Products, Inc., which is part of the metals service centers segment, for $36.6 million. The Company has contingent consideration of up to US$5 million which may be paid based on Norton Metals achieving certain performance targets during the first five years to December 31, 2013.

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

BRITISH COLUMBIA

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

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
27353 58th Crescent,
Unit 114, 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) 772-0321

ONTARIO

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

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

Burlington
Milspec
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
(Specializing in long products and structurals)
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

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 East,
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

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

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

Acier Loubier Nord
2425 Édouard-Michelin,
J6Y 4P2
(450) 477-4040

Thetford Mines
Mégantic Métal
1400, boulevard Frontenac Est,
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 NW,
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) 232-0404

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

Clayton, Missouri
225 Meramec Avenue
Suite 1028T, 63105
Tel: (314) 721-1177

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

Houston, Texas
2002 Timberloch Place,
The Woodlands,
Suite 200, 77380
Tel: (281) 210-3344

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
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.

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