Russel Metals

Third Quarter
September 30, 2008

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RUSSEL METALS INC.
REPORT TO SHAREHOLDERS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

It would be hard to imagine writing a report to our shareholders with a greater contrast between our reported results and the current economic environment. We generated record earnings per share of $1.45 for the third quarter of 2008 due to an unprecedented increase in revenues and margins in our energy tubular products segment along with continued strength in steel pricing in our metal service centers and steel distributors segments.

The economic environment in which the Company operates weakened near the end of the third quarter and this weakness has continued into the fourth quarter of 2008. Steel prices dropped and demand, which was steady throughout the third quarter, has also softened. The financial meltdown experienced in October has negatively impacted most sectors of the economy and our customer base has not been immune to the pressure. The fourth quarter of 2008 will be weaker than the last two quarters; however, we believe that business conditions, while down, should be stronger than the financial pundits are projecting overall.

Our strong third quarter earnings per share of $1.45 compares to earnings per share of $0.44 for the same period in 2007. Total revenues for the quarter increased 53% to $955 million compared to the same quarter in 2007 and increased 12% quarter over quarter compared to the second quarter of 2008. Margins in our metals service centers and steel distributors segments decreased as the cost of goods sold reflected higher steel prices. For the nine months ended September 30, 2008, basic earnings per share were $3.16 compared to $1.37 for the nine months ended September 30, 2007. Net income for the first nine months of 2008 was $200 million versus $86 million in 2007.

In the second quarter Report to Shareholders, we stated that for the balance of 2008, working capital expansion caused by higher steel prices should continue to consume cash due to increased working capital requirements per ton of steel. Due to our high operating profits, we generated free cash flow of $97 million, which more than offsets the increased cash requirements for working capital of $81 million. For the nine months ended September 30, 2008, we have generated $213 million of free cash flow and have utilized $93 million for working capital requirements. The payment of dividends and purchase of shares utilized cash of $137 million for the first nine months. In the first quarter of 2009, the payment of variable compensation and additional income tax payments, both related to 2008, are expected to utilize cash of approximately $100 million. We have sufficient cash and unused bank facilities to fully fund these requirements.

On September 22, 2008, we announced that we had commenced an Automatic Share Purchase Plan. This allows us to purchase shares under our Normal Course Issuer Bid during periods that would normally be restricted due to our blackout policy. During the quarter ended September 30, 2008, we purchased 1,970,700 shares. Year to date November 6, 2008 we have purchased 3,453,000 shares at an average price of $24.24 per share.

The Board of Directors approved a quarterly dividend of $0.45 per common share payable December 15, 2008 to shareholders of record at the close of business on November 24, 2008.

Outlook

The financial crisis has impacted both demand and steel pricing in most industries we service, although there remain positive pockets of business in the customer base of Russel Metals. Uncertainty in the markets has had an impact on both our suppliers and customers, but we strongly believe that Russel Metals has the flexibility, expertise and strong balance sheet that will enable us to react to the changing conditions as well as any company in our sector.

We believe that our fourth quarter results will be better than the fourth quarter of 2007 due to continued strength in certain sectors where we are an important participant.

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

November 6, 2008

Management's Report to the Shareholders

The accompanying interim consolidated financial statements, management's discussion and analysis and report to shareholders for the quarter ended September 30, 2008, have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

These interim 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 interim consolidated financial statements and management's discussion and analysis within reasonable limits of materiality and for the consistency of financial data included in the report to shareholders with that contained in the consolidated interim 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'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 interim 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 interim consolidated financial statements, the management's discussion and analysis and the report to shareholders for presentation to the shareholders.

November 6, 2008

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

M. E. Britton
Vice President and Chief Financial Officer

RUSSEL METALS INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(millions)	**September 30, 2008**	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	**$ 173.6**	$ 181.8
Accounts receivable	**542.0**	341.8
Inventories (Note 5)	**747.4**	572.6
Prepaid expenses and other assets	**4.5**	8.5
Income taxes	**0.1**	3.9
	1,467.6	1,108.6
Property, Plant and Equipment	**231.5**	227.9
Deferred Financing Charges	**0.2**	0.3
Future Income Tax Assets	**1.0**	1.0
Other Assets (Note 6)	**6.7**	12.1
Goodwill and Intangibles	**56.2**	53.4
	$ 1,763.2	$ 1,403.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	**$ 7.3**	$ -
Accounts payable and accrued liabilities	**522.0**	294.2
Income taxes payable	**37.0**	2.8
Current portion long-term debt	**1.1**	0.9
	567.4	297.9
Derivatives	**33.3**	39.5
Long-Term Debt	**187.8**	174.9
Pensions and Benefits	**1.1**	1.4
Future Income Tax Liabilities	**7.3**	5.8
	796.9	519.5
Shareholders' Equity (Note 13)		
Common shares	**491.7**	504.2
Retained earnings	**485.3**	411.7
Contributed surplus	**9.0**	6.2
Accumulated other comprehensive loss	**(19.7)**	(38.3)
	966.3	883.8
	$ 1,763.2	$ 1,403.3

ON BEHALF OF THE BOARD,

A. Benedetti
Director

L. Lachapelle
Director

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

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(millions, except per share data)	Quarters ended September 30, **2008**	Quarters ended September 30, 2007	Nine months ended September 30, **2008**	Nine months ended September 30, 2007
Revenues	**$ 954.9**	$ 624.3	**$ 2,523.5**	$ 1,960.8
Cost of sales and operating expenses (Note 5)	**810.0**	577.5	**2,205.1**	1,819.1
Earnings before the following	**144.9**	46.8	**318.4**	141.7
Other income (expense) (Note 7)	**(2.3)**	(1.6)	**(4.8)**	(1.6)
Interest expense, net (Note 8)	**(2.3)**	(1.5)	**(6.7)**	(4.9)
Earnings before income taxes	**140.3**	43.7	**306.9**	135.2
Provision for income taxes	**(48.8)**	(15.8)	**(107.4)**	(49.3)
Net earnings for the period	**$ 91.5**	$ 27.9	**$ 199.5**	$ 85.9
Basic earnings per common share	**$ 1.45**	$ 0.44	**$ 3.16**	$ 1.37
Diluted earnings per common share	**$ 1.44**	$ 0.44	**$ 3.15**	$ 1.36

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)

(millions)	Quarters ended September 30, **2008**	Quarters ended September 30, 2007	Nine months ended September 30, **2008**	Nine months ended September 30, 2007
Retained earnings, beginning of the period, as previously reported	**$ 462.8**	$ 415.3	**$ 411.7**	$ 411.1
Transitional adjustment - financial instruments	**-**	-	**-**	(0.5)
Retained earnings, beginning of the period, as restated	**462.8**	415.3	**411.7**	410.6
Net earnings for the period	**91.5**	27.9	**199.5**	85.9
Amount related to common shares purchased for cancellation (Note 13)	**(37.4)**	-	**(37.4)**	-
Dividends on common shares	**(31.6)**	(28.5)	**(88.5)**	(81.8)
Retained earnings, end of the period	**$ 485.3**	$ 414.7	**$ 485.3**	$ 414.7

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

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(millions)	**Quarters ended September 30, 2008**	2007	**Nine months ended September 30, 2008**	2007
Net earnings for the period	**$ 91.5**	$ 27.9	**$ 199.5**	$ 85.9
Other comprehensive income (loss)				
Unrealized foreign exchange gains (losses) on translating financial statements of self sustaining foreign operations (U.S. subsidiaries)	**14.7**	(12.6)	**24.3**	(31.1)
Gains and (losses) on derivatives designated as net investment hedges (Note 14)	**(2.2)**	4.3	**(3.9)**	10.7
Gains and (losses) on derivatives designated as cash flow hedges (Note 14)	**0.8**	0.7	**(1.8)**	3.0
Other comprehensive income (loss)	**13.3**	(7.6)	**18.6**	(17.4)
Comprehensive income	**$ 104.8**	$ 20.3	**$ 218.1**	$ 68.5

RUSSEL METALS INC.
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS
(UNAUDITED)

(millions)	**Quarters ended September 30, 2008**	2007	**Nine months ended September 30, 2008**	2007
Accumulated net unrealized foreign currency translation gains (losses)				
Balance, beginning of period	**$ (36.1)**	$ (29.7)	**$ (45.7)**	$ (11.2)
Net unrealized gain (loss) on translation of net investment in foreign operations	**14.7**	(12.6)	**24.3**	(31.1)
Balance, end of period	**(21.4)**	(42.3)	**(21.4)**	(42.3)
Accumulated net unrealized loss on cash flow and net investment hedges				
Balance, beginning of period	**3.1**	(0.6)	**7.4**	-
Transitional adjustment	**-**	-	**-**	(9.3)
Unrealized gains (losses) on items designated as net investment hedges (Note 14)	**(2.2)**	4.3	**(3.9)**	10.7
Unrealized gains (losses) on items designated as cash flow hedges (Note 14)	**0.8**	0.7	**(1.8)**	3.0
Balance, end of period	**1.7**	4.4	**1.7**	4.4
Total accumulated other comprehensive loss	**$ (19.7)**	$ (37.9)	**$ (19.7)**	$ (37.9)

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

RUSSEL METALS INC.
CONSOLIDATED CASH FLOW STATEMENTS
(UNAUDITED)

(millions)	**Quarters ended September 30, 2008**	Quarters ended September 30, 2007	**Nine months ended September 30, 2008**	Nine months ended September 30, 2007
Operating activities				
Net earnings	**$ 91.5**	$ 27.9	**$ 199.5**	$ 85.9
Depreciation and amortization	**5.9**	4.9	**17.3**	14.8
Future income taxes	**0.1**	0.5	**1.4**	2.4
Loss (gain) on sale of fixed assets	**0.2**	-	**0.3**	(0.6)
Stock-based compensation	**0.4**	0.5	**3.3**	4.4
Pension expense (funding)	**(0.2)**	0.1	**(0.3)**	(1.2)
Other	**2.6**	1.7	**5.3**	2.0
Cash from operating activities before working capital	**100.5**	35.6	**226.8**	107.7
Changes in non-cash working capital items				
Accounts receivable	**(59.1)**	(30.3)	**(192.8)**	(68.9)
Inventories	**(115.7)**	62.8	**(158.3)**	72.4
Accounts payable and accrued liabilities	**70.6**	(19.1)	**216.4**	(0.3)
Current income taxes	**18.5**	0.7	**40.4**	(12.0)
Other	**1.0**	0.7	**1.2**	0.8
Change in non-cash working capital	**(84.7)**	14.8	**(93.1)**	(8.0)
Cash from operating activities	**15.8**	50.4	**133.7**	99.7
Financing activities				
Issue of common shares – options exercised	**0.2**	0.1	**2.7**	10.9
Purchase of common shares	**(48.7)**	-	**(48.7)**	-
Dividends on common shares	**(31.6)**	(28.5)	**(88.5)**	(81.8)
Repayment of long-term debt	**(0.3)**	-	**(0.7)**	-
Increase in bank borrowing	**7.3**	-	**7.3**	-
Cash used in financing activities	**(73.1)**	(28.4)	**(127.9)**	(70.9)
Investing activities				
Purchase of fixed assets	**(3.6)**	(4.4)	**(14.1)**	(13.0)
Proceeds on sale of fixed assets	**-**	0.1	**0.1**	1.4
Purchase of business	**-**	(109.0)	**-**	(109.0)
Reclassification of cash equivalents to other assets	**-**	(11.0)	**-**	(11.0)
Other	**(1.5)**	0.2	**(1.7)**	0.4
Cash used in investing activities	**(5.1)**	(124.1)	**(15.7)**	(131.2)
Effect of exchange rates on cash	**0.5**	(1.0)	**1.7**	(3.9)
Decrease in cash and cash equivalents	**(61.9)**	(103.1)	**(8.2)**	(106.3)
Cash and cash equivalents, beginning of the period	**235.5**	206.7	**181.8**	209.9
Cash and cash equivalents, end of the period	**$ 173.6**	$ 103.6	**$ 173.6**	$ 103.6

Supplemental cash flow information:				
Income taxes paid	**$ 31.3**	$ 15.8	**$ 67.0**	$ 60.7
Interest paid	**$ 7.5**	$ 7.2	**$ 14.9**	$ 14.8

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(UNAUDITED)

1. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles; however, they do not include all of the disclosure requirements for annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies disclosed in Note 1 to the 2007 annual consolidated financial statements except as disclosed in Note 2. These interim consolidated financial statements should be read in conjunction with the 2007 annual consolidated financial statements including notes thereto. These interim consolidated financial statements contain all adjustments necessary for a fair presentation of the results for the periods reported.

2. Changes in Accounting Policies

On January 1, 2008, the Company adopted the new accounting standard: CICA Handbook section 3031, Inventories. This standard is effective for fiscal years beginning on or after January 1, 2008. The standard requires certain costs, previously recorded as period costs, be allocated to inventory and included in cost of sales when inventory is sold. Prior to the adoption of this standard, these costs were treated as operating expenses. The adoption of this standard did not have a material effect on the Company's results of operations. As permitted by the standard, prior periods have not been restated.

In addition, on January 1, 2008, the Company adopted section 3862, Financial Instruments – Disclosures and section 3863, Financial Instruments – Presentation, which provide enhanced disclosure and presentation requirements and replace section 3861, Financial Instruments – Disclosure and Presentation (Note 12). The Company also adopted section 1535, Capital Disclosures, which provides guidance on disclosure of the entity's objectives, policies and processes for managing capital (Note 13).

3. Economic Cycle

All three of the metals operating segments are significantly affected by economic cycles in the markets where they operate. Revenues and operating profits in the energy tubular products are also affected by oil and gas drilling in Western Canada, which is predominantly carried out during the period from October to March. For these reasons, the results of operations for the periods shown are not necessarily indicative of the results for the full year. During 2008, our U.S. line pipe and our oil sands related revenues have offset this seasonality.

4. Acquisition

On September 28, 2007, the Company completed its acquisition of 100% of the outstanding shares of JMS Metal Services, Inc. and related companies. The Company has accounted for the acquisition using the purchase method. During the quarter ended September 30, 2008 the purchase price was finalized and no significant changes were made to the purchase price allocation.

5. Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventories of $16.9 million are carried at fair value less cost to sell. Inventories of $697.4 million were expensed through cost of sales during the quarter (year-to-date: $1,907.1 million) including $1.3 million for inventory write-downs and $0.4 million of write-down reversals due to rising prices.

6. Other Assets

As at September 30, 2008, the Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment which had an original face value of $11.0 million is included in other assets at its estimated fair value of $4.5 million. This investment matured on August 23, 2007 but was not repaid due to a disruption of the Canadian ABCP market. The Montreal Group representing banks, asset-backed commercial paper providers and major investors (the "Committee") reached an agreement to restructure the ABCP market. This proposed restructuring will replace the existing short-term investments with longer term notes, pool certain series of non-bank asset-backed commercial paper and mitigate the collateral call obligations.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee, under the Companies' Creditors Arrangement Act (CCAA), establishing a procedure for Noteholder approval of the restructuring plan. On April 25, 2008, the Noteholders voted in favour of the restructuring and on June 5, 2008, the Ontario Superior Court of Justice approved the plan. On September 19, 2008, the Committee announced the commencement of the process to tender existing ABCP for restructured notes.

The Company has assumed that it will receive $11.0 million of new notes issued by a master asset vehicle that will include a pooling of leveraged super senior trades as well as traditional assets. The Company will hold investments in Master Asset Vehicle 2, which will utilize a margin funding facility provided by certain financial institutions as part of the restructuring. The Company expects to receive 87% of notes that will pay interest and be assigned an investment grade rating (A-1 and A-2 notes). The remaining notes (B and C notes) are expected to accrue interest that will only be paid subsequent to the payment of interest and principal on the investment grade notes. Under the terms of the restructuring the Company expects to receive $3.4 million A-1 notes, $6.2 million A-2 notes, $1.1 million B notes and $0.3 million C notes.

Quoted market values of this investment are not available and therefore the Company has used a probability-weighted valuation technique considering the time value of money and the expected return of principal. The Company has determined the fair value of its investment using information provided on the proposed restructuring and other factors. Based on the Company's fair value assessment, a fair value adjustment of $2.9 million was recorded in the quarter ended March 31, 2008, $0.3 million was recorded for the quarter ended June 30, 2008 and $2.2 million was recorded for the quarter ended September 30, 2008. The total fair value adjustment recognized on the Company's investment since August 2007 is $6.5 million. The Company utilized the following assumptions:

Accrued interest from August 2007	$nil
Bankers acceptance rate	3.5%
Discount rate for cash flows	10.5% - 11.0%
Expected return of principal:	
A-1 notes	100%
A-2 notes	75%
B and C notes	0%

The fair market value of this investment may be affected by changes in market conditions and the timing and completion of the restructuring. In addition, there is no certainty regarding the eventual recovery of this investment and, consequently, the timing and amount of any future cash flows may vary materially from current estimates. A change of 100 basis points in the discount factor applied to the cash flows would impact the fair value adjustment by approximately $0.3 million.

7. Other Income (Expense)

(millions)	**Quarters ended September 30, 2008**	Quarters ended September 30, 2007	**Nine months ended September 30, 2008**	Nine months ended September 30, 2007
Unrealized loss on investment (Note 6)	**$ (2.2)**	$ (1.0)	**$ (5.4)**	$ (1.0)
Ineffectiveness on cash flow hedges	**(0.1)**	(0.6)	**0.6**	(0.6)
	$ (2.3)	$ (1.6)	**$ (4.8)**	$ (1.6)

8. Interest Expense, net

(millions)	Quarters ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Interest on long-term debt	**$ 3.9**	$ 3.8	**$ 11.5**	$ 11.5
Other interest, net	**(1.6)**	(2.3)	**(4.8)**	(6.6)
	$ 2.3	$ 1.5	**$ 6.7**	$ 4.9

9. Stock-based Compensation

During the quarter ended March 31, 2008, the Company issued 834,841 stock options at an exercise price of $26.70 and a fair value of $4.73. The following is a continuity of the Company's stock options outstanding:

	Number of Options 2008	2007	Weighted Average Exercise Price 2008	2007
Balance, January 1	**2,146,683**	2,014,033	**$ 25.07**	$ 18.09
Granted	**834,841**	-	**26.70**	-
Exercised	**(95,700)**	(81,700)	**10.54**	9.83
Forfeited	**(7,600)**	(2,600)	**24.73**	18.11
Balance, March 31	**2,878,224**	1,929,733	**$ 26.03**	$ 18.44
Granted	**-**	845,500	**-**	33.81
Exercised	**(94,798)**	(610,200)	**16.24**	16.34
Forfeited	**(12,300)**	(1,000)	**24.51**	21.79
Balance, June 30	**2,771,126**	2,164,033	**$ 26.37**	$ 25.03
Exercised	**(13,800)**	(5,950)	**12.74**	12.72
Forfeited	**-**	(4,500)	**-**	25.71
Balance, September 30	**2,757,326**	2,153,583	**$ 26.56**	$ 25.07
Exercisable	**1,922,826**	451,983	**$ 23.24**	$ 24.13

10. Segmented Information

(millions)	Quarters ended September 30, 2008	2007	Nine months ended September 30, 2008	2007
Segment Revenues				
Metals service centers	**$ 509.8**	$ 339.5	**$ 1,408.3**	$ 1,072.1
Energy tubular products	**324.8**	174.5	**773.7**	520.5
Steel distributors	**116.8**	107.6	**332.4**	359.6
	951.4	621.6	**2,514.4**	1,952.2
Other	**3.5**	2.7	**9.1**	8.6
	$ 954.9	$ 624.3	**$ 2,523.5**	$ 1,960.8
Segment Operating Profits				
Metals service centers	**$ 68.1**	$ 23.4	**$ 172.5**	$ 79.6
Energy tubular products	**59.8**	15.9	**103.9**	41.7
Steel distributors	**21.4**	10.2	**57.7**	33.6
	149.3	49.5	**334.1**	154.9
Corporate expenses	**(5.8)**	(3.3)	**(18.5)**	(15.3)
Other	**1.4**	0.6	**2.8**	2.1
	$ 144.9	$ 46.8	**$ 318.4**	$ 141.7

(millions)	**September 30, 2008**	December 31, 2007
Identifiable assets		
Metals service centers	**$ 887.7**	$ 693.0
Energy tubular products	**479.6**	358.0
Steel distributors	**193.0**	128.7
Identifiable assets by segment	**1,560.3**	1,179.7
Assets not included in segments		
Cash and cash equivalents	**173.6**	181.8
Income tax assets	**1.1**	4.9
Deferred financing charges	**0.2**	0.3
Other assets	**6.5**	11.8
Corporate and other operating assets	**21.5**	24.8
Total assets	**$ 1,763.2**	$ 1,403.3

11. Pension and Benefits

For the quarter ended September 30, 2008 the total benefit cost for the Company's defined benefit pension plans relating to employee future benefits was $0.3 million (2007: $0.5 million) and for the nine months ended September 30, 2008 the cost was $1.0 million (2007: $1.5 million).

12. Financial Instruments

a) As at September 30, 2008, the Company was contractually obligated to make payments under its long-term debt agreement, cross currency swap agreements and operating lease obligations that come due during the following periods.

(millions)	Long-Term Debt Maturities	Long-Term Debt Interest	Lease Obligations	Total
2008 from September 30, 2008	$ 0.3	$ 0.3	$ 2.8	$ 3.4
2009	1.0	14.8	10.4	26.2
2010	1.1	14.8	9.5	25.4
2011	1.1	14.7	7.5	23.3
2012	1.2	14.6	6.1	21.9
2013 and beyond	188.0	20.8	9.8	218.6
Total	$ 192.7	$ 80.0	$ 46.1	$ 318.8

The long-term debt interest in the table includes the impact of the swaps. Long-term debt interest has been estimated based on current exchange rates for the portion not hedged. In addition, the Company has contractual obligations on its cross currency swap agreements whereby it receives interest at 6 3/8% on a notional US$100 million and pays interest at 7.12% on a notional $131.8 million. The swaps mature on March 1, 2014 at which time the Company will receive US$100 million and will pay $131.8 million. At September 30, 2008, this resulted in an obligation of $25.8 million. The fair value of the swaps includes an additional obligation of $7.5 million, which represents the fair value of payments for the remaining life of the swaps if the Company was to extinguish the swaps at September 30, 2008. The swaps contain an option for the Company and the swap counterparties to early terminate the swaps in the first quarter of 2009.

b) Credit risk

The Company, in the normal course of business, is exposed to credit risk relating to accounts receivable from its customers. This risk is mitigated by the fact that its customer base is geographically diverse and in different industries. The Company's allowance for doubtful accounts is not significant. The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts and the fixed for fixed cross currency swaps. The Company mitigates this risk by entering into forward contracts and swaps with members of its credit facility syndicate. The Company is exposed to credit risk in its investment in ABCP (Note 6).

c) Interest rate risk

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

d) Foreign exchange risk

The Company uses foreign exchange contracts with maturities of less than a year to manage foreign exchange risk on certain future committed cash outflows. At September 30, 2008, the Company had outstanding forward foreign exchange contracts in the amounts of US$80.2 million and €11.6 million (2007: US$19.5 million and €3.1 million). In order to mitigate its foreign exchange exposure, the Company has designated its swaps as a hedge of US$115 million of its long-term debt. In addition, the Company has designated a portion of the Senior Notes not hedged by the swaps as a hedge of its net investment in foreign subsidiaries.

13. Shareholders' Equity

The continuity of common shares is as follows:

	Number of Shares	Amount (millions)
Balance, January 1, 2008	63,066,092	$ 504.2
Stock options exercised	204,298	3.3
Normal course issuer bid	(1,970,700)	(15.8)
Balance, September 30, 2008	61,299,690	$ 491.7

The common shares purchased through the Normal Course Issuer Bid were purchased for cancellation. The Company has recorded the shares purchased under this bid on the transaction date. The settlement for the purchase of 176,500 shares for $4.5 million were paid for subsequent to September 30, 2008.

	Quarters ended September 30,		Nine months ended September 30,	
	2008	2007	**2008**	2007
Average shares outstanding				
Basic	**63,123,028**	63,061,387	**63,134,725**	62,757,769
Diluted	**63,358,634**	63,248,277	**63,333,638**	63,143,890

The continuity of contributed surplus is as follows:

(millions)	**2008**	2007
Balance, January 1	**$ 6.2**	$ 3.5
Stock-based compensation expense	**3.3**	4.4
Exercise of options	**(0.5)**	(2.2)
Balance, September 30	**$ 9.0**	$ 5.7

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 bank facility.

On February 20, 2008, the Company announced a Normal Course Issuer Bid to purchase up to 6,000,000 of its common shares. As of September 30, 2008, the Company had purchased 1,970,700 common shares under this bid for an average cost of $26.95. On September 19, 2008, the Company announced an Automatic Share Purchase Plan which allows the Company to purchase shares not ordinarily permitted due to self-imposed blackout periods. The Company is in compliance with the terms of its U.S. Note Indenture and as of September 30, 2008, there was $382 million available for restricted payments including the payment of dividends and share repurchases. Approximately 80% of the Company's assets are current assets. Capital fluctuates with the working needs of the operations.

14. Other Comprehensive Income (Loss)

Income taxes on the gains and losses on derivatives designated as net investment hedges were $0.2 million and $0.4 million for the three and nine months ended September 30, 2008, respectively (2007: $(0.8) million and $(2.0) million).

Income taxes on the gains and losses on derivatives designated as cash flow hedges were $(0.3) million and $0.7 million for the three and nine months ended September 30, 2008, respectively (2007: $(0.4) million and $(1.5) million).

RUSSEL METALS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Interim Consolidated Financial Statements of Russel Metals Inc. for the nine months ended September 30, 2008 and 2007, including the notes thereto, and the Management's Discussion and Analysis and the audited Consolidated Financial Statements for the year ended December 31, 2007, including the notes thereto, contained in our fiscal 2007 Annual Report. In the opinion of management, such interim consolidated financial statements contain all adjustments necessary for a fair presentation of the results for such periods. The results of operations for the periods shown are not necessarily indicative of what our results will be for the full year. Statements contained in this document that relate to our beliefs or expectations as to certain future events are not statements of historical fact and are forward-looking statements. We caution readers that there are important factors, risks and uncertainties, including but not limited to economic, competitive and governmental factors affecting our operations, markets, products, services and prices that could cause our actual results, performance or achievements to be materially different from those forecasted or anticipated by us in such forward-looking statements. All dollar references in this report are in Canadian dollars unless otherwise stated.

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

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

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

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

Our basic earnings per share of $1.45 for the quarter ended September 30, 2008 is significantly higher than the $0.44 per share we reported for the quarter ended September 30, 2007. The third quarter of 2008 was significantly impacted in a positive way by demand and steel price increases at our operations in the energy tubular products segment. High steel prices which improved our second quarter 2008 results continued throughout the third quarter of 2008 resulting in strong results in both the metals service center segment and the steel distributors segment.

The current financial crisis has created uncertainty in our economic environment. This economic uncertainty has reduced both demand and steel pricing in October 2008. We believe that our results for the fourth quarter will be impacted by the financial instability that exists and results will be lower. The manufacturing and the energy sector which represent a large portion of our customers have been impacted by this instability.

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

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

The quarter and nine months ended September 30, 2008, have been prepared using this standard and thus the gross margin numbers disclosed for those periods are not comparable to the quarter and nine months ended September 30, 2007. We have chosen not to restate our prior period.

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

Results of Operations

The following table provides operating profits before interest, taxes and other income or expense. The corporate expenses included are not allocated to specific operating segments. Gross margins (revenue minus cost of sales) as a percentage of revenues for the operating segments are also shown below. The gross margin disclosed for the third quarter and nine months ended September 30, 2007 have not been restated for the new accounting standard. 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 September 30,			Nine Months Ended September 30,		
(millions, except percentages)	**2008**	2007	% Change	**2008**	2007	% Change
Segment Revenues						
Metals service centers	**$ 509.8**	$ 339.5	50%	**$ 1,408.3**	$ 1,072.1	31%
Energy tubular products	**324.8**	174.5	86%	**773.7**	520.5	49%
Steel distributors	**116.8**	107.6	9%	**332.4**	359.6	(8%)
Other	**3.5**	2.7		**9.1**	8.6	
	$ 954.9	$ 624.3	53%	**$ 2,523.5**	$ 1,960.8	29%
Segment Operating Profits						
Metals service centers	**$ 68.1**	$ 23.4	191%	**$ 172.5**	$ 79.6	117%
Energy tubular products	**59.8**	15.9	276%	**103.9**	41.7	149%
Steel distributors	**21.4**	10.2	110%	**57.7**	33.6	72%
Corporate expenses	**(5.8)**	(3.3)	(76%)	**(18.5)**	(15.3)	(21%)
Other	**1.4**	0.6		**2.8**	2.1	
Operating profits	**$ 144.9**	$ 46.8	210%	**$ 318.4**	$ 141.7	125%
Segment Gross Margin as a % of Revenues						
Metals service centers	**26.1%**	23.7%		**25.4%**	24.2%	
Energy tubular products	**28.8%**	14.8%		**22.0%**	14.2%	
Steel distributors	**23.6%**	12.8%		**23.9%**	13.5%	
Total operations	**27.0%**	19.5%		**24.4%**	19.7%	
Segment Operating Profits as a % of Revenues						
Metals service centers	**13.4%**	6.9%		**12.2%**	7.4%	
Energy tubular products	**18.4%**	9.1%		**13.4%**	8.0%	
Steel distributors	**18.3%**	9.5%		**17.4%**	9.3%	
Total operations	**15.2%**	7.5%		**12.6%**	7.2%	

Note: see Change in Accounting Policy.

Metals Service Centers

a) Description of operations

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

b) Factors affecting results

The following is a general discussion of the significant factors affecting our metals service centers results. More specific information on how these factors impacted 2008 and 2007 is found in the sections that follow.

Steel pricing fluctuates significantly throughout the steel cycle. Steel prices are influenced by overall demand, trade sanctions, scrap steel pricing and product availability. Supply side management, practiced by steel producers in North America, and international supply and demand, which impacts steel imports, affect product availability. Trade sanctions are initiated either by steel mills or government agencies in North America and, less directly, worldwide. Starting in January 2008, steel prices increased consistently month over month to June 2008 and continued at these high levels to September 2008.

Demand is significantly affected by economic cycles with revenues and operating profits fluctuating with the level of general business activity in the markets serviced. We are most impacted by the manufacturing (excluding automotive), resource and construction segments of the Canadian economy. Excluding tons shipped by JMS Russel Metals, tons shipped for the third quarter of 2008 approximate those of the third quarter of 2007; however have declined by approximately 13% from the second quarter of 2008.

Canadian service centers, which represent the majority of our metals service centers operations, are particularly affected by regional general economic conditions. We have operations in all regions of Canada and believe that we have a national market share above 25%. This large market share and our diverse customer base of approximately 18,000 Canadian customers, suggest that our results should mirror the performance of the regional economies of Canada excluding the automotive sector in which we are not a significant participant. Our U.S. operations have approximately 9,000 customers in selected regions.

Our revenues and operating profits of our U.S. operations for the nine months ended September 30, 2008 are reduced when converted to Canadian dollars as 2008 was converted at 1.0186 and 2007 was converted at 1.1048.

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

c) Metals Service Centers Segment Results -- Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Revenues for the three months ended September 30, 2008 increased by $170.3 million, or 50% mainly due to the increased price of steel. Excluding JMS Russel Metals, revenues for the three months ended September 30, 2008 were 33% higher than the three months ended September 30, 2007. The average selling price of metal for the three months ended September 30, 2008 was approximately 34% higher than the average selling price for the three months ended September 30, 2007. At the beginning of 2008, the mills increased the price of steel, which resulted in increased pricing to our customers. The mill price of steel continued to increase month over month with certain products reaching all time highs at the end of the second quarter of 2008 and stabilizing in the third quarter of 2008.

Overall tons shipped, excluding JMS Russel Metals, for the three months ended September 30, 2008 approximate those shipped in the three months ended September 30, 2007. Tons shipped declined in British Columbia due to reduced demand in the forestry sector; however, increased demand in the Prairie region made up the difference.

Gross margins were higher in the three months ended September 30, 2008 due to the increase in the selling price of steel compared to the three months ended September 30, 2007. Gross margin as a percentage of revenues was 26.1% for the three months ended September 30, 2008. We estimate that the impact of the new accounting standard for inventory decreased gross margins approximately 3%.

Revenues for the third quarter of 2008 were 2.5% higher than for the second quarter of 2008 related to increased selling prices. The average selling price of metal for the third quarter of 2008 was 16% higher than the second quarter of 2008. Tons shipped in the third quarter of 2008 were approximately 13% less than the second quarter of 2008. The spread between selling price and inventory cost decreased in the third quarter of 2008 compared to the second quarter of 2008 with higher priced inventory on hand compared to the second quarter of 2008 resulting in gross margins declining from 27.4% to 26.1%.

Operating expenses in our metals service centers segment increased by $7.9 million for the third quarter of 2008 compared to the same period in 2007. After considering the increase in expenses related to JMS Russel Metals and the decline due to expenses absorbed in cost of goods sold in 2008, expenses for the third quarter of 2008 were approximately $11 million higher than those in the third quarter of 2007. The increase mainly relates to higher variable compensation and delivery costs.

Metals service centers operating profits for the three months ended September 30, 2008 of $68.1 million were $44.7 million higher than the same period in 2007, mainly related to higher gross margins and the acquisition of JMS Russel Metals.

d) Metals service centers segment results -- Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Revenues for the nine months ended September 30, 2008 at $1.4 billion were 31% higher than revenues for the nine months ended September 30, 2007. Excluding JMS Russel Metals, tons shipped for the nine months ended September 30, 2008 approximate those for the nine months ended September 30, 2007. We estimate that the average selling price for our product mix in the service center segment was approximately 14% higher for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007.

Gross margin as a percentage of revenues increased from 24.2% for the nine months ended September 30, 2007 to 25.4% for the nine months ended September 30, 2008. We estimate that the impact of the new accounting standard for inventory decreased gross margins by approximately 3%.

Operating expenses for the nine months ended September 30, 2008 were $5.2 million higher than for the same period in 2007. After considering the increase in expenses related to JMS Russel Metals and the decline due to expenses absorbed in cost of goods sold in 2008, expenses for the nine months ended September 30, 2008 are approximately $17 million higher. The increase mainly relates to higher variable compensation and delivery costs.

Metals service centers operating profits in the nine months ended September 30, 2008 increased $92.9 million to $172.5 million compared to the nine months ended September 30, 2007, primarily related to higher gross margins and the acquisition of JMS Russel Metals.

Energy Tubular Products

a) Description of operations

These operations distribute oil country tubular goods (OCTG), line pipe, tubes, valves and fittings, primarily to the energy industry in Western Canada and the western United States, from 5 Canadian and 3 U.S. locations. We purchase these products either from the pipe processing arms of North American steel mills, independent manufacturers of pipe and pipe accessories or international steel mills. Our energy tubular products segment operates under the names Comco Pipe and Supply Company, Fedmet Tubulars, Triumph Tubular & Supply, Pioneer Pipe and Spartan Steel.

b) Factors affecting results

The following is a general discussion of the factors affecting our energy tubular products segment operations. More specific information on how these factors impacted 2008 and 2007 is found in the sections that follow.

Oil and gas prices, which are among the factors that can impact oil rig count and subsequent drilling activities particularly in Western Canada, have the ability to significantly affect demand for our products. In 2007, rig activity declined to levels lower than those experienced at any time in the last 10 years. Rig activity has increased during the third quarter of 2008; however, remain at levels lower than prior to 2007. The price of natural gas rose in the third quarter of 2008 and we observed increased drilling activity during the quarter.

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

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

Our Canadian operations have been positively affected by the U.S. dollar exchange rate since some products are sourced outside Canada and are priced in U.S. dollars. The Canadian dollar appreciation for the nine months reported has reduced 2008 revenues and operating profits of our U.S. operations as they have been converted at 1.0186 for 2008 and 1.1048 for 2007.

Oil and gas drilling in Western Canada usually peaks during the period from October to March. Revenues for all three quarters in 2008 have been record highs for our energy tubular products segment. Activity in the oil sands of northern Alberta and line pipe volumes in the U.S. have offset any declines in oil and gas drilling in Western Canada during the first three quarters of 2008.

c) Energy Tubular Products Segment Results -- Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Revenues increased 86% to $324.8 million in the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase in revenues in 2008 relates to higher volumes and prices in all operations in our energy tubular products segment. Our two operations in Western Canada servicing the oil and gas drilling activity had higher volumes in the third quarter of 2008 compared to the third quarter of 2007 related to more rig activity in the gas sector. Our U.S. operations servicing the oil and gas drilling industry in the U.S. and our Canadian operations that service the oil sands of northern Alberta had continued high demand which started in the second quarter of 2008.

Gross margin of $93.7 million for the three months ended September 30, 2008, was $67.8 million higher than the three months ended September 30, 2007. The higher margin relates to increased volumes and higher selling prices in 2008.

Operating expenses were higher by $23.9 million for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 mainly related to expenses moved between cost of goods sold and operating expenses as a result of the new accounting standard, higher variable compensation and higher delivery costs. Gross margins and operating expenses increased 1% related to selling expenses previously included under cost of goods sold.

Operating profits increased by $43.9 million to $59.8 million for the third quarter of 2008, compared to the same period in 2007. The increase in operating profits was due to higher volumes and steel prices.

d) Energy Tubular Products Segment Results -- Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Revenues increased 49% to $773.7 million in the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. Increased revenues are a result of higher demand and higher steel pricing at all operations in this segment.

Gross margin increased $96.5 million to $170.5 million for the nine months ended September 30, 2008 compared to the same period in 2007. The higher margin mainly relates to increased volumes and selling prices.

Operating expenses were higher by $34.3 million for the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007, due to higher delivery costs related to our U.S. operations, increased variable compensation and selling expenses included in cost of goods sold in 2007.

Operating profits increased by $62.2 million or 149% in the nine months ended September 30, 2008, compared to the nine months ended September 30, 2007. The increase is due to higher volumes and selling prices.

Steel Distributors

a) Description of operations

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

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

b) Factors affecting results

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

Steel pricing is influenced by overall demand, trade sanctions and product availability both domestically and worldwide. Trade sanctions are initiated either by steel mills or government agencies in North America. Mill capacity by product line in North America and international supply and demand impact steel imports and significantly affect product availability. The weakening of the U.S. dollar against other world currencies in 2007 and the first half of 2008 increased the price of import material.

Our revenues and operating profits of our U.S. operations for the nine months ended September 30, 2008 are reduced when converted to Canadian dollars as 2008 was converted at 1.0186 and 2007 was converted at 1.1048.

The Financial Instruments accounting standard considers an element of transactions between a buyer and a seller in a currency that is not the functional currency of either party to be a foreign currency derivative. Our Canadian operations purchase inventory in currencies that result in embedded derivatives. Volatility in world exchange rates causes the foreign currency gain or loss to vary materially from reporting period to reporting period. The amounts recorded in operating expenses will reverse in future periods and will be added to inventory costs when the material is received.

Demand for steel that is sourced off shore fluctuates significantly, mainly driven by price and product availability in North America. Our steel distributors have a significant number of customers who buy from them on a periodic basis, which can result in large fluctuations in revenues reported from period to period. During 2007 and the first half of 2008, demand declined as current pricing for off shore product was higher due to demand outside North America and increased transportation costs and thus import product was not competitively priced compared to domestic product. During the third quarter of 2008, off shore pricing declined resulting in imports starting to flow to North America.

c) Steel Distributors Segment Results -- Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Steel distributors revenues increased 9% to $116.8 million for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 mainly related to the increased selling price of steel. Volumes were lower due to strong international pricing and demand which resulted in material flowing to areas outside North America.

Gross margin as a percentage of revenues of 23.6% for the three months ended September 30, 2008 improved from 12.8% for the three months ended September 30, 2007. Increased selling prices for product held in inventory by the steel distributor operations resulted in higher margins.

Operating expenses were $2.6 million higher for the third quarter of 2008 compared to the third quarter of 2007, related to higher variable compensation based on profitability.

Operating profits for the three months ended September 30, 2008 were $21.4 million, which is $11.2 million higher than the three months ended September 30, 2007, due to the impact of higher steel pricing.

d) Steel Distributors Segment Results -- Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Steel distributors revenues for the nine months ended September 30, 2008, were 8% lower than the nine months ended September 30, 2007 due to lower volumes and the impact of the change in the Canadian dollar versus the U.S. dollar. Volumes for the nine months in 2008 have been unfavourably impacted by strong international pricing and demand which resulted in material flowing to areas outside North America. Approximately 4% of the decline in revenues relates to lower exchange rates for our U.S. distributor operations converted to Canadian dollars for reporting purposes.

Gross margin dollars increased $31.0 million related to higher steel pricing partially offset by lower volumes.

Operating expenses in the nine months ended September 30, 2008 compared to the same period in 2007 were $6.9 million higher due to higher variable compensation and higher foreign exchange gains reported in 2007 than 2008. The foreign exchange gains relate to embedded derivatives on purchases outside North America by the Canadian steel distributors operation. The net change in foreign exchange gains increased operating expenses by $2.3 million for the nine months ended September 30, 2008 compared to the same period in 2007.

Operating profits for the nine months ended September 30, 2008 at $57.7 million were $24.1 million higher than the nine months ended September 30, 2007. The increase in the price of steel resulted in higher gross margins on lower volumes in 2008 compared to 2007.

Corporate Expenses -- Three Months and Nine Months Ended September 30, 2008 Compared to Three Months and Nine Months Ended September 30, 2007

Corporate expenses for the nine months ended September 30, 2008 were $3.2 million higher than for the nine months ended September 30, 2007 and were $2.5 million higher for the third quarter of 2008 compared to the same period in 2007. The increase in expenses in 2008 mainly relates to increased variable compensation based on higher earnings in 2008. For the nine months ended September 30, 2008, stock option expense was $1.0 million less than for the same period in 2007 due to the lower fair value of options issued in 2008.

Other -- Three Months and Nine Months Ended September 30, 2008 Compared to Three Months and Nine Months Ended September 30, 2007

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for the three and nine months ended September 30, 2008 were stronger than those recorded in the same periods of 2007.

Consolidated Results -- Three Months and Nine Months Ended September 30, 2008 Compared to Three Months and Nine Months Ended September 30, 2007

Operating profits from operations were $144.9 million, which is $98.1 million higher in the three months ended September 30, 2008, compared to the three months ended September 30, 2007. Operating profits increased $176.7 million to $318.4 million for the nine months ended September 30, 2008 compared to the same period in 2007. Increased gross margins due to higher steel prices in all segments, the addition of JMS Russel Metals in September 2007 and higher volumes in the energy tubular products segment are the main reasons for the significant increase in profits in the third quarter and nine months ended September 30, 2008 compared to 2007.

Interest Expense

The following table shows the components of our interest expense.

(millions)	**Quarters Ended September 30, 2008**	2007	**Nine Months Ended September 30, 2008**	2007
Interest on long-term debt	**$ 3.9**	$ 3.8	**$ 11.5**	$ 11.5
Other interest, net	**(1.6)**	(2.3)	**(4.8)**	(6.6)
Total interest	**$ 2.3**	$ 1.5	**$ 6.7**	$ 4.9

Consolidated interest expense for the nine months ended September 30, 2008 increased by $1.8 million to $6.7 million compared to the nine months ended September 30, 2007 due to lower returns on our cash on hand.

Unrealized Loss on Investment

Prior to August 23, 2007, a portion of our cash and cash equivalents was held in non-bank Canadian asset-backed commercial paper. On August 23, 2007, we were notified that notes in the principal amount of $11.0 million were not able to be repaid when due as a result of a disruption in the Canadian market for asset-backed commercial paper. The Montreal Group, representing banks, asset-backed commercial paper providers and major investors, requested that we, along with other participants, agree to a standstill agreement while they prepared a plan to restructure. On April 25, 2008, the investors voted in favour of a restructuring, which will result in us receiving new longer term notes. As required by GAAP, we have made a fair value determination of this investment, which is classified as held-for-trading. As no active market exists for this investment, we used a discounted cash flow technique to obtain an estimated fair value. This technique considers the time value of money and the credit risk associated with the investment. We used the following assumptions in our valuation: the trust is a going concern; the A1 and A2 senior notes will be AA rated; the principal on the A-2, B and C notes will not be 100% redeemed; the notes will be interest bearing; interest received will be net of restructuring costs and standby fees on the margin facility; and the interest on the notes other than the A1 notes will not be paid until 2016. Based on our assumptions, a write-down of $1.1 million was recorded in the second half of 2007 and a further write-down of $5.4 million was recorded in the nine months ended September 30, 2008. As more information becomes available the fair value will change.

Ineffectiveness on Cash Flow Hedges

As required under the standard for financial instruments and hedges, we evaluated the effectiveness of our swaps which hedge our U.S. Senior Notes. Based on movement in the market value of the swaps, we recorded a loss of $0.1 million for the quarter ended September 30, 2008 and a gain of $0.6 million for the nine months ended September 30, 2008.

Income Taxes

Our provision for income taxes for the third quarter of 2008 was $48.8 million, which was $33.0 million higher than the third quarter of 2007, as a result of our higher earnings. For the nine months ended September 30, 2008, our income tax rate was 35.0%. We estimate our normalized effective income tax rate to be approximately 34% for 2008. The rate for the nine months ended September 30, 2008 was higher due to non-deductible expenses related to stock options issued and the fair value write downs associated with asset-backed commercial paper. The rate was lower than 2007 due to previously announced rate reductions in Canada.

Net Earnings

Net earnings for the third quarter of 2008 were $91.5 million compared to $27.9 million for the third quarter of 2007. Basic earnings per common share for the third quarter of 2008 were $1.45 compared to $0.44 for the third quarter of 2007. Basic earnings per common share were $3.16 for the nine months ended September 30, 2008 compared to $1.37 for the nine months ended September 30, 2007. Our higher net earnings in 2008 mainly relate to the positive influence on gross margins of increases in steel prices, volume increases in the energy sector and earnings from the acquisition of JMS Russel Metals.

Shares Outstanding and Dividends

The weighted average number of common shares outstanding for the third quarter of 2008 was 63,123,028 compared to 63,061,387 for the third quarter of 2007. The weighted average number of common shares outstanding for the nine months ended September 30, 2008 was 63,134,725 compared to 62,757,769 for the nine months ended September 30, 2007. The increase relates to employee stock options exercised. As of September 30, 2008, we have purchased 1,970,700 common shares under our normal course issuer bid. As at September 30, 2008, we had 61,299,690 common shares outstanding and on November 6, 2008, we had 59,817,090 common shares outstanding. The shares outstanding are calculated based on transaction date for shares purchased under our normal course issuer bid. We have shares which have been purchased and are pending settlement and cancellation by our custodian.

On February 20, 2008, the TSX approved our normal course issuer bid which allows us to purchase up to six million common shares prior to February 21, 2009. On September 22, 2008, we commenced an automatic share purchase plan which allows purchases of our common shares during black out periods.

We have returned a portion of our earnings to our shareholders by paying common share dividends of $31.6 million in the third quarter of 2008 compared to $28.5 million in the third quarter of 2007. We paid a cash dividend of $0.45 per share plus a supplemental dividend of $0.05 per share for the third quarter of 2008 compared to $0.45 per share for the third quarter of 2007.

Our U.S. Senior Notes indenture provides that any dividend payment in excess of $0.08 per common share per quarter is considered a restricted payment. We currently have a basket of approximately $382 million available for restricted payments. The basket is replenished by 50% of net earnings on a quarterly basis. Share buybacks deplete the basket and proceeds for shares issued increase the basket.

EBITDA

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

(millions)	Quarters Ended September 30, **2008**	2007	Twelve Months Ended September 30, **2008**	2007
Net earnings for the period	**$ 91.5**	$ 27.9	**$ 223.2**	$ 116.3
Provision for income taxes	**48.8**	15.8	**118.2**	66.1
Interest expense, net	**2.3**	1.5	**8.9**	6.3
Earnings before interest and income taxes (EBIT)	**142.6**	45.2	**350.3**	188.7
Depreciation and amortization	**5.9**	4.9	**22.9**	19.9
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$ 148.5**	$ 50.1	**$ 373.2**	$ 208.6

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.

Capital Expenditures

Capital expenditures were $14.1 million for the nine months ended September 30, 2008 compared to $13.0 million in the same period in 2007.

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 during 2008.

Depreciation expense was $16.7 million for the nine months ended September 30, 2008 and $14.0 million for the nine months ended September 30, 2007. The increase relates to depreciation on additional assets acquired with JMS Russel Metals.

Liquidity

At September 30, 2008, we had cash and cash equivalents net of bank indebtedness of $166.3 million.

We stress working capital management to ensure that working capital is minimized and leverage reduced over the economic cycle. Our metals distribution business experiences significant swings in cash flow in order to fund working capital. Inventory and accounts receivable represent a large percentage of our total assets employed and vary throughout each cycle. At September 30, 2008, current assets represented 83% of our total assets versus 79% at December 31, 2007. Total assets were $1.8 billion at September 30, 2008 and $1.4 billion at December 31, 2007.

Increases in accounts receivable and inventory have utilized $174.8 million of cash in the third quarter of 2008 driven by steel price increases. Accounts payable increased $70.6 million related to trade payables and variable compensation accruals. Accounts payable will decrease and cash will be utilized when variable compensation is paid in the first quarter of 2009. Working capital utilized $84.7 million of cash while operating activities before working capital generated $100.5 million during the third quarter of 2008.

Cash generated from operating activities before working capital changes was $226.8 million for the nine months ended September 30, 2008 and was $107.7 million for the nine months ended September 30, 2007. Cash generated from operations after working capital requirements was $133.7 million for the nine months ended September 30, 2008 compared to $99.7 million for the same period in 2007.

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

Increases in inventory balances consumed cash of $115.7 million for the third quarter mainly related to steel price increases. All segments are monitoring inventories to maintain levels required to service expected volumes. Our goal is to ensure that we keep our inventory levels as low as possible in order to minimize inventory valuation risk while still satisfying the needs of our customers.

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

	Quarter Ended				
Inventory Turns	**Sept. 30 2008**	**June 30 2008**	**Mar. 31 2008**	**Dec. 31 2007**	Sept. 30 2007
Metals service centers	**4.2**	**4.5**	**4.5**	**4.4**	4.2
Energy tubular products	**4.0**	**3.6**	**3.9**	**2.6**	3.0
Steel distributors	**2.6**	**4.3**	**4.2**	**3.1**	3.8
Total operations	**3.9**	**4.2**	**4.2**	**3.5**	3.7

We expect our metals service centers operations to turn over their inventory at higher rates than the industry average. Based on information published by the Metals Service Center Institute in its monthly Metals Activity Report, average inventory turns for U.S. based steel companies for the three months ended September 30, 2008 was 4.3 turns and the average for Canadian based companies was 4.0 turns.

Inventory turns for metal service centers decreased slightly as inventory on hand increased mainly related to increased steel prices.

Our energy tubular products segment has increased inventory turns compared to the second quarter of 2008 driven by increased sales in the third quarter of 2008.

Inventory turns in the third quarter of 2008 for steel distributors decreased due to increased inventory levels and higher priced steel on hand. The increased flow of import material as well as the delay of shipments due to Hurricane Gustav has increased the inventory levels.

The other major components of working capital are accounts receivable and accounts payable. Accounts receivable as at September 30, 2008, increased $192.8 million since December 31, 2007, as a result of higher revenues being driven by higher steel prices and increased volume. Accounts payable increased $216.4 million in the nine months ended September 30, 2008, which mainly relates to higher trade payables, a result of higher steel prices, and higher variable compensation which will be paid in the first quarter of 2009.

During the third quarter of 2008, we utilized $48.7 million to purchase shares under our normal course issuer bid. In September 2007 we utilized $109 million of cash to acquire our JMS Russel Metals operations.

During the nine months ended September 30, 2008, we made income tax payments of $67.0 million. We anticipate making income tax payments of approximately $40 million in February 2009 related to 2008 in excess of instalment requirements.

During the nine months ended September 30, 2008, we utilized cash of $14.1 million on capital expenditures and $88.5 million on common share dividends. During the nine months ended September 30, 2007, we utilized cash of $13.0 million on capital expenditures and $81.8 million on common share dividends.

Free Cash Flow

(millions)	**Quarters Ended September 30, 2008**	Quarters Ended September 30, 2007	**Nine Months Ended September 30, 2008**	Nine Months Ended September 30, 2007
Cash from operating activities before working capital	**$ 100.5**	$ 35.6	**$ 226.8**	$ 107.7
Purchase of fixed assets	**(3.6)**	(4.4)	**(14.1)**	(13.0)
Proceeds on sale of fixed assets	**-**	0.1	**0.1**	1.4
	$ 96.9	$ 31.3	**$ 212.8**	$ 96.1

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

Cash, Debt and Credit Facilities

At September 30, 2008, we had cash and cash equivalents, net of bank indebtedness and outstanding cheques, of $166.3 million.

The following table details our long-term debt and related cross currency swaps.

(millions)	**Amortized Cost or Fair Value September 30, 2008**	Amortized Cost or Fair Value December 31, 2007
Long-term debt		
6.375% US$175 million Senior Notes due March 1, 2014	**$ 182.1**	$ 169.0
Capital leases		
Arkansas development bonds, maturing 2014 to 2017	**6.5**	6.8
Computer equipment, maturing 2010	**0.3**	-
	188.9	175.8
Current portion	**1.1**	0.9
	$ 187.8	$ 174.9
Obligations under cross currency swaps		
Foreign exchange difference on US$100 million	**$ 25.8**	$ 33.0
Additional fair value of cash flows to terminate swaps	**7.5**	6.5
	$ 33.3	$ 39.5

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

Cash and Bank Credit Facilities

As at September 30, 2008 (millions)	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	$ 8.5	$ -	$ 8.5
Cash net of outstanding cheques	174.8	-	174.8
Net cash	166.3	-	166.3
Facilities availability	200.0	60.9	260.9
Letters of credit	144.6	56.5	201.1
	55.4	4.4	59.8
Total cash and undrawn facilities	$ 221.7	$ 4.4	$ 226.1

We have a facility, with a syndicate of Canadian and U.S. banks, for a revolving loan of $200 million, including letters of credit. In December 2007, the term of our facility was extended to January 15, 2011. We may extend this facility annually with the consent of the syndicate. We are entitled to borrow, on a revolving basis, up to an amount equal to the sum of specified percentages of our eligible accounts receivable and inventories, to a maximum of $200 million. We are currently entitled to borrow $200 million, including letters of credit under this facility. At September 30, 2008, we had borrowings of $8.5 million and had letters of credit of $144.6 million. At September 30, 2007, we had no borrowings and had letters of credit of $21.6 million under this facility.

In addition, a U.S. subsidiary has its own bank credit facility which is renewed annually in July. The maximum borrowing under this facility at September 30, 2008 was US$57.5 million. At September 30, 2008, this subsidiary had no borrowings and had letters of credit of US$53.3 million. At September 30, 2007, this subsidiary had no borrowings and had letters of credit of US$18.8 million.

Based on cash, cash equivalents and our bank facilities, we have access to approximately $226.1 million of cash based on our September 30, 2008 balances. In the past, we have made several acquisitions and we believe we can continue to grow by acquisition. We believe we have the ability to fund future acquisitions through the utilization or expansion of our existing bank facilities.

Contractual Obligations

As at September 30, 2008, we were contractually obligated to make payments under our long-term debt agreement, cross currency swap agreements and operating lease obligations that come due in the future. See Note 12 to the interim financial statements for future obligations by year.

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

Derivatives

Our fixed interest cross currency swaps obligate us to purchase US$100 million at $1.3180 for each US$1.00. Based on the September 30, 2008 exchange rate of 1.0599, we would incur an obligation of $25.8 million in addition to our long-term debt obligation of $185.5 million. The fair value of our swaps includes an additional obligation of $7.5 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at September 30, 2008.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of the letters of credit disclosed in the bank credit facilities table and operating lease obligations disclosed in the financial instruments note to the financial statements.

We have multiple defined benefit pension plans in Canada, as disclosed in Note 17 to our 2007 annual consolidated financial statements. In the third quarter of 2008, we contributed approximately $0.6 million to these plans. We expect additional contributions of approximately $1.0 million during the last quarter of the year.

Future Accounting and Reporting Changes

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

Accounting Estimates

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

Our most significant assets are accounts receivable and inventory.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past collection experience, current financials or credit agency reports and the experience of our credit personnel. Accounts receivable that we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at September 30, 2008 is consistent with the level at December 31, 2007 as a percentage of receivables.

Inventories

We review our inventory to ensure that the cost of inventory is not in excess of its estimated market value and for obsolete and slow moving product. Inventory reserves or write-downs are recorded when cost exceeds the market value and when product is determined to be slow moving or obsolete. Significant reductions in market value could result in additional write-downs. The inventory reserve level at September 30, 2008 has increased compared to the level at December 31, 2007 due to decreasing steel prices.

Other areas involving significant estimates and judgements include:

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

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

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

The current financial crisis has lead to a significant decrease in the equity markets. The fair value of the plan assets for our defined benefit pension plans have been affected by this market decline. We had approximately $73 million in plan assets at October 31, 2008, which represents a 16% decrease in asset values from December 31, 2007.

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

Our investment in asset-backed commercial paper is included in Other Assets at fair value. As there is currently no market for this product, we performed a probability-weighted valuation technique to obtain a fair value for this asset. While we believe our assumptions are reasonable based on available information, the actual recovery on this investment could be materially different and our valuation will change in future periods as more information becomes available.

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

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

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

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

No changes were made in our disclosure controls or our internal control over financial reporting during the third quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Vision and Strategy

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

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

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

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

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

Risk

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

Outlook

The financial crisis has impacted both demand and steel pricing in most industries we service, although there remain positive pockets of business in the customer base of Russel Metals. Uncertainty in the markets has had an impact on both our suppliers and customers, but we strongly believe that Russel Metals has the flexibility, expertise and strong balance sheet that will enable us to react to the changing conditions as well as any company in our sector.

We believe that our fourth quarter results will be better than the fourth quarter of 2007 due to continued strength in certain sectors where we are an important participant.

November 6, 2008