



**Russel Metals**

**First Quarter  
March 31, 2008**

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**RUSSEL METALS INC.**  
**REPORT TO SHAREHOLDERS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008**

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During the first quarter of 2008, steel producers announced steep steel price increases which, although reminiscent of 2004, were caused by reasons that did not necessarily exist in 2004. The 2004 rise in pricing was precipitated by increased metallic input prices, large quantities of both finished and unfinished steel imported by China and the weakening U.S. dollar which made imports unattractive for the North American market. In 2008, metallic input prices along with energy and transportation have increased dramatically, which has severely impacted the break even cost of steel producers. Our understanding is that this has driven up the costs for North American producers of Hot Rolled Coil by \$200 to \$350 per ton based on the mix of metallics. The continued weak U.S. dollar and higher steel demand and pricing outside of North America, which pricing anomaly did not exist in 2004, has provided an umbrella for the North American mills to recapture their high costs without the negative impact of significant offshore imports.

What is most interesting here is that steel price increases in 2008 have begun at a much higher level than those of 2004. In 2004, the price of hot rolled coil went from a trough of US\$320 per ton to a peak of US\$780 per ton. Prices have risen from US\$530 per ton in December 2007, to an announced US\$1,000 per ton for June deliveries.

Our revenues increased 4% in the first quarter of 2008 compared to the first quarter of 2007 and were up 19% compared to the fourth quarter of 2007. Our operating profit as a percentage of revenues improved in both steel distributors and metals service centers compared to the first and fourth quarter of 2007. Margins in these two segments strengthened throughout the quarter, which reflects the steel price increases announced by steel mills. Our energy tubular products segment experienced strong volumes but lower margins relating to shipments to service oil sands projects in northern Alberta. Our operating profit in this segment was stronger than the first and fourth quarter of 2007 which is encouraging.

Corporate expenses increased by \$1.2 million due to a \$1.7 million increase in stock-based compensation for options issued in the first quarter of 2008. Stock-based compensation expense will return to approximately \$0.5 million per quarter for the rest of 2008. Expenses in the quarter also included an additional \$2.9 million fair value adjustment to our investment in asset-backed commercial paper to bring the estimated fair value of the investment to \$7 million from our original investment of \$11 million.

Basic earnings per share for the first quarter of 2008 were \$0.46, which were affected by a number of items totalling \$0.10 per share that were not experienced in the first quarter of 2007. First quarter earnings include \$0.03 per share related to higher stock-based compensation expense and \$0.04 per share to write down our investment in asset-backed commercial paper to fair value. In addition, the translation of our U.S. based operations' profits to Canadian dollars at lower exchange rates impacted earnings by \$0.03 per share compared to the first quarter of 2007. The comparable earnings per share were \$0.46 for the first quarter of 2007 and \$0.38 for the fourth quarter of 2007.

In the first quarter of 2008, we generated \$37 million of free cash flow. Accounts receivable increased by \$71 million to support higher first quarter 2008 volumes and steel prices compared with the fourth quarter of 2007. Inventory levels decreased significantly in both our steel distributors and energy tubular products segments offset by increases at metals service centers due to steel price increases. Accounts payable have increased by \$56 million due to higher valued inventory purchases. Given the current upward trend in the price of steel, working capital will consume cash in the next quarter rather than provide a source of cash as it has done for the last several quarters. We have sufficient cash on hand and unused bank facilities to fund the required increase in working capital.

The Board of Directors has approved a quarterly dividend of \$0.45 per common share payable June 15, 2008 for shareholders of record as of June 2, 2008.

### **Outlook**

Steel prices throughout the world have remained strong to date in 2008. Although it is very difficult to predict steel prices, the increased level of producer consolidation provides us with confidence that the eventual drop in steel pricing levels will flatten out at a higher price than we have seen in the past. We believe that this means higher peaks and higher troughs, both of which bode well for Russel Metals.

Margin improvements in the metals service centers and steel distributors segments experienced in March 2008 are expected to continue into the second quarter. Our energy tubular products segment has entered into the seasonally slower spring break up period. We anticipate a modest recovery in margins and demand in our drilling operations in the second half of 2008 compared to 2007 and continued strength in our U.S. line pipe operations and our Canadian operations servicing oil sands projects.

Overall, we are optimistic that we will see continued margin improvement in the second quarter of 2008, but remain uncertain about demand. Based on higher steel pricing resulting in higher margins, we anticipate significantly higher earnings in the second quarter of 2008 versus the first quarter of 2008.



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

May 12, 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 March 31, 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.

May 12, 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)

<i>(millions)</i>	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 199.6	\$ 181.8
Accounts receivable	416.4	341.8
Inventories (Note 5)	566.5	572.6
Prepaid expenses and other assets	4.7	8.5
Income taxes	1.9	3.9
	<b>1,189.1</b>	<b>1,108.6</b>
<b>Property, Plant and Equipment</b>	<b>231.8</b>	<b>227.9</b>
<b>Deferred Financing Charges</b>	<b>0.2</b>	<b>0.3</b>
<b>Future Income Tax Assets</b>	<b>1.0</b>	<b>1.0</b>
<b>Other Assets (Note 6)</b>	<b>9.0</b>	<b>12.1</b>
<b>Goodwill and Intangibles</b>	<b>55.1</b>	<b>53.4</b>
	<b>\$ 1,486.2</b>	<b>\$ 1,403.3</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 354.4	\$ 294.2
Income taxes payable	7.1	2.8
Current portion long-term debt	1.1	0.9
	<b>362.6</b>	<b>297.9</b>
<b>Derivatives</b>	<b>36.0</b>	<b>39.5</b>
<b>Long-Term Debt</b>	<b>182.3</b>	<b>174.9</b>
<b>Pensions and Benefits</b>	<b>1.3</b>	<b>1.4</b>
<b>Future Income Tax Liabilities</b>	<b>6.4</b>	<b>5.8</b>
	<b>588.6</b>	<b>519.5</b>
<b>Shareholders' Equity (Note 13)</b>	<b>897.6</b>	<b>883.8</b>
	<b>\$ 1,486.2</b>	<b>\$ 1,403.3</b>

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)

<i>(millions, except per share data)</i>	<b>Quarters ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenues</b>	<b>\$ 712.3</b>	<b>\$ 683.7</b>
Cost of sales and operating expenses (Note 5)	<b>660.2</b>	637.7
<b>Earnings before the following</b>	<b>52.1</b>	46.0
Other expense (Note 7)	<b>(3.2)</b>	-
Interest expense, net (Note 8)	<b>(2.1)</b>	(1.8)
<b>Earnings before income taxes</b>	<b>46.8</b>	44.2
Provision for income taxes	<b>(17.6)</b>	(15.5)
<b>Net earnings for the period</b>	<b>\$ 29.2</b>	<b>\$ 28.7</b>
<b>Basic earnings per common share</b>	<b>\$ 0.46</b>	<b>\$ 0.46</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.46</b>	<b>\$ 0.46</b>

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

<i>(millions)</i>	<b>Quarters ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Retained earnings, beginning of the period, as previously reported	<b>\$ 411.7</b>	\$ 411.1
Transitional adjustment - financial instruments	<b>-</b>	(0.5)
Retained earnings, beginning of the period, as restated	<b>411.7</b>	410.6
Net earnings for the period	<b>29.2</b>	28.7
Dividends on common shares	<b>(28.4)</b>	(25.0)
<b>Retained earnings, end of the period</b>	<b>\$ 412.5</b>	<b>\$ 414.3</b>

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

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

<i>(millions)</i>	Quarters ended March 31,	
	2008	2007
<b>Net earnings for the period</b>	<b>\$ 29.2</b>	<b>\$ 28.7</b>
Other comprehensive income (loss)		
Unrealized foreign exchange gains (losses) on translating financial statements of self sustaining foreign operations (U.S. subsidiaries)	12.2	(2.3)
Gains and (losses) on items designated as net investment hedges (net of tax of \$0.2 (2007: \$0.1))	(2.1)	0.8
Gains and (losses) on derivatives designated as cash flow hedges (net of tax of \$0.2 (2007: \$0.4))	(0.5)	0.9
Other comprehensive income (loss)	9.6	(0.6)
<b>Comprehensive income</b>	<b>\$ 38.8</b>	<b>\$ 28.1</b>

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

<i>(millions)</i>	Quarters ended March 31,	
	2008	2007
Accumulated net unrealized foreign currency translation gains (losses)		
Balance, beginning of period	\$ (45.7)	\$ (11.2)
Net unrealized gain (loss) on translation of net investment in foreign operations	12.2	(2.3)
Balance, end of period	(33.5)	(13.5)
Accumulated net unrealized loss on cash flow and net investment hedges		
Balance, beginning of period	7.4	-
Transitional adjustment	-	(9.3)
Unrealized gains (losses) on items designated as net investment hedges (net of tax of \$0.2 (2007: \$0.1))	(2.1)	0.8
Unrealized gains (losses) on items designated as cash flow hedges (net of tax of \$0.2 (2007: \$0.4))	(0.5)	0.9
Balance, end of period	4.8	(7.6)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (28.7)</b>	<b>\$ (21.1)</b>

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

**RUSSEL METALS INC.**  
**CONSOLIDATED CASH FLOW STATEMENTS**  
(UNAUDITED)

<i>(millions)</i>	<b>Quarters ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Earnings from continuing operations	\$ 29.2	\$ 28.7
Depreciation and amortization	5.7	4.9
Future income taxes	0.1	0.4
Gain on sale of fixed assets	-	(0.7)
Stock-based compensation	2.5	0.8
Pension expense (funding) (Note 11)	(0.1)	(1.6)
Other	3.4	0.2
<b>Cash from operating activities before working capital</b>	<b>40.8</b>	<b>32.7</b>
<b>Changes in non-cash working capital items</b>		
Accounts receivable	(71.3)	(57.0)
Inventories	12.7	22.3
Accounts payable and accrued liabilities	55.7	33.0
Current income taxes	8.8	(8.6)
Other	1.1	0.9
<b>Change in non-cash working capital</b>	<b>7.0</b>	<b>(9.4)</b>
<b>Cash from operating activities</b>	<b>47.8</b>	<b>23.3</b>
<b>Financing activities</b>		
Issue of common shares – options exercised	1.0	0.8
Dividends on common shares	(28.4)	(25.0)
Repayment of long-term debt	(0.2)	-
<b>Cash used in financing activities</b>	<b>(27.6)</b>	<b>(24.2)</b>
<b>Investing activities</b>		
Purchase of fixed assets	(4.3)	(3.7)
Proceeds on sale of fixed assets	-	1.3
Other	0.5	0.7
<b>Cash used in investing activities</b>	<b>(3.8)</b>	<b>(1.7)</b>
<b>Effect of exchange rates on cash</b>	<b>1.4</b>	<b>(0.2)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>17.8</b>	<b>(2.8)</b>
Cash and cash equivalents, beginning of the period	181.8	209.9
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 199.6</b>	<b>\$ 207.1</b>
<b>Supplemental Cash flow information:</b>		
Income taxes paid	\$ 10.2	\$ 23.3
Interest paid	\$ 7.5	\$ 7.6

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 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 sector 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.

**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 March 31, 2008, no changes were made to the purchase price allocation.

The cash consideration and purchase price allocation is subject to change due to tax election and other adjustments under the acquisition agreement that will be finalized by September 30, 2008.

**5. Inventories**

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on an average cost basis. Inventories of \$16.8 million are carried at fair value less cost to sell. Inventories of \$576.4 million were expensed through cost of sales during the period including \$0.6 million for inventory write-downs and \$0.3 million of write-down reversals due to rising prices.

## 6. Other Assets

As at March 31, 2008, the Company held an investment in non-bank Canadian asset-backed commercial paper (ABCP). This investment which has an original face value of \$11.0 million is included in other assets at its estimated fair value of \$7.0 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") has 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. The restructuring requires the resolution of certain remaining issues including a challenge to the legal releases.

Based on the restructuring proposal, the Company has assumed that it will receive \$11 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 intends to 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 are expected to accrue interest but will only be paid subsequent to the payment of interest and principal on the investment grade notes (B and C notes). Under the terms of the restructuring the Company will 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 due to the market disruption 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, an additional fair value adjustment of \$2.9 million was recorded in the quarter ended March 31, 2008. The total fair value adjustment recognized on the Company's investment is \$4.0 million. The Company utilized the following assumptions:

Accrued interest from August 2007	\$nil
Bankers acceptance rate	3.62%
Discount rate for cash flows	7.00% - 7.50%

The fair market value of this investment may be affected by changes in market conditions and the likelihood, nature and timing of the planned 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 \$0.5 million.

## 7. Other Expense

<i>(millions)</i>	Quarters ended March 31,	
	2008	2007
Unrealized loss on investment (Note 6)	\$ 2.9	\$ -
Ineffectiveness on cash flow hedges	0.3	-
	<b>\$ 3.2</b>	<b>\$ -</b>

## 8. Interest Expense, net

<i>(millions)</i>	Quarters ended March 31,	
	2008	2007
Interest on long-term debt	\$ 3.8	\$ 3.9
Other interest, net	(1.7)	(2.1)
	<b>\$ 2.1</b>	<b>\$ 1.8</b>

## 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 per share (2007: nil). The assumptions used in the Black-Scholes option-pricing model are consistent with those disclosed in Note 14 to the 2007 consolidated financial statements resulting in a fair value of \$4.73 per option granted. The following is a continuity of the Company's stock options outstanding:

	Number of Options		Weighted Average Exercise Price	
	2008	2007	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	<b>2,878,224</b>	1,929,733	<b>\$ 26.03</b>	\$ 18.44
Exercisable	<b>1,083,384</b>	689,600	<b>\$ 19.45</b>	\$ 16.68

## 10. Segmented Information

<i>(millions)</i>	Quarters ended March 31,	
	2008	2007
<b>Segment Revenues</b>		
Metals service centers	\$ 401.2	\$ 362.6
Energy tubular products	213.5	179.0
Steel distributors	96.0	140.3
	<b>710.7</b>	681.9
Other	1.6	1.8
	<b>\$ 712.3</b>	<b>\$ 683.7</b>
<b>Segment Operating Profits</b>		
Metals service centers	\$ 32.1	\$ 24.8
Energy tubular products	15.6	14.8
Steel distributors	10.7	11.5
	<b>58.4</b>	51.1
Corporate expenses	(5.9)	(4.7)
Other	(0.4)	(0.4)
	<b>\$ 52.1</b>	<b>\$ 46.0</b>

<i>(millions)</i>	<b>March 31, 2008</b>	December 31, 2007
<b>Identifiable assets</b>		
Metals service centers	<b>\$ 754.1</b>	\$ 693.0
Energy tubular products	<b>377.1</b>	358.0
Steel distributors	<b>121.7</b>	128.7
<hr/>		
Identifiable assets by segment	<b>1,252.9</b>	1,179.7
Assets not included in segments		
Cash and cash equivalents	<b>199.6</b>	181.8
Income tax assets	<b>2.9</b>	4.9
Deferred financing charges	<b>0.2</b>	0.3
Other assets	<b>9.0</b>	11.8
Corporate and other operating assets	<b>21.6</b>	24.8
<hr/>		
Total assets	<b>\$ 1,486.2</b>	\$ 1,403.3

## 11. Pension and Benefits

For the quarter ended March 31, 2008 the total benefit cost from the defined benefit pension plans relating to employee future benefits was \$0.3 million (2007: \$0.5 million).

## 12. Financial Instruments

a) As at March 31, 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.

<i>(millions)</i>	Long-Term Debt Maturities	Long-Term Debt Interest	Lease Obligations	Total
2008 from March 31, 2008	\$ 0.7	\$ 7.3	\$ 8.4	\$ 16.4
2009	1.0	14.5	10.4	25.9
2010	1.0	14.4	9.5	24.9
2011	1.1	14.4	7.5	23.0
2012	1.2	14.3	6.1	21.6
2013 and beyond	182.4	20.2	9.8	212.4
<hr/>				
Total	\$ 187.4	\$ 85.1	\$ 51.7	\$ 324.2

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 March 31, 2008, this results in an obligation of \$29.0 million. The fair value of the swaps includes an additional obligation of \$7 million, which represents the fair value of payments for the remaining life of the swaps if the Company was to extinguish the swaps at March 31, 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.

**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 March 31, 2008, the Company had outstanding forward foreign exchange contracts in the amounts of US\$34.7 million and €2.1 million (2007: US\$62.0 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 components of shareholders' equity are as follows:

<i>(millions)</i>	<b>March 31, 2008</b>	December 31, 2007
Common shares	<b>\$ 505.5</b>	\$ 504.2
Retained earnings	<b>412.5</b>	411.7
Contributed surplus	<b>8.3</b>	6.2
Accumulated other comprehensive loss	<b>(28.7)</b>	(38.3)
	<b>\$ 897.6</b>	\$ 883.8

The number of common shares issued and outstanding was as follows:

	Number of Shares	Amount (millions)
Balance December 31, 2007	63,066,092	\$ 504.2
Stock options exercised	95,700	1.3
Balance March 31, 2008	63,161,792	\$ 505.5

	<b>Quarters ended March 31, 2008</b>	2007
Average shares outstanding		
Basic	<b>63,088,828</b>	62,397,789
Diluted	<b>63,157,694</b>	62,938,611

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. The Company is in compliance with the terms of its U.S. Note Indenture and as of March 31, 2008, there was \$398.0 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.

**RUSSEL METALS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**  
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008**

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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 three months ended March 31, 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](http://www.sedar.com) or on our website at [www.russelmetals.com](http://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 \$0.46 for the three months ended March 31, 2008 are the same as those reported for the three months ended March 31, 2007. The first quarter 2008 earnings were reduced by two expenses not experienced in the first quarter of 2007. Stock-based compensation and a write-down of our investment in asset-backed commercial paper reduced earnings by \$0.07 per share. In addition, the lower exchange rate used to translate our U.S. operations reduced the first quarter of 2008 earnings per share by a further \$0.03 compared to the earnings for the first quarter of 2007. Our demand levels picked up in the first quarter of 2008 from the fourth quarter of 2007 for both metals service centers and energy tubular products segments. Price increases announced by the mills in the quarter resulted in overall margins improving during the first quarter of 2008 in metals service centers and steel distributors.

## **Change in Accounting Policy**

Effective January 1, 2008, we adopted the new Canadian accounting standards on Inventories. This section 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 ended March 31, 2008, has been prepared using this standard and thus the gross margin numbers disclosed for this period are not comparable to the ones disclosed for the quarter ended March 31, 2007. We have chosen not to restate our prior period as it was not practical to manually perform the tasks that we programmed our computer system to perform in 2008.

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 the first quarter of 2008 compared to the first quarter of 2007. The gross margin percent for our energy tubular products group increased 0.6%, 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.

In addition, the new standard requires a net realizable value test for inventory on hand at the item level. Consistent with previous practice we have written down inventories where the net realizable value is less than cost. The new standard requires that we write up values to original cost if the net realizable value has increased in the period. For the three months ended March 31, 2008, we have had a reduction in our net realizable value reserves of \$0.3 million due to rising prices. We anticipate more volatility in our results due to this change as metal pricing tends to fluctuate with demand and with mill costs that we do not control.

## Results of Operations

The following table provides operating profits before interest and taxes. 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 first quarter of 2007 has 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.

<i>(millions, except percentages)</i>	Quarters Ended March 31,		2008 Change as a % of 2007
	2008	2007	
<i>Segment Revenues</i>			
Metals service centers	\$ 401.2	\$ 362.6	10.6%
Energy tubular products	213.5	179.0	19.3%
Steel distributors	96.0	140.3	(31.6%)
Other	1.6	1.8	
	<b>\$ 712.3</b>	<b>\$ 683.7</b>	4.2%
<i>Segment Operating Profits</i>			
Metals service centers	\$ 32.1	\$ 24.8	29.4%
Energy tubular products	15.6	14.8	5.4%
Steel distributors	10.7	11.5	(7.0%)
Corporate expenses	(5.9)	(4.7)	(25.5%)
Other	(0.4)	(0.4)	
Operating profits	<b>\$ 52.1</b>	<b>\$ 46.0</b>	13.3%
<i>Segment Gross Margin as a % of Revenues (Note)</i>			
Metals service centers	22.0%	23.9%	
Energy tubular products	13.3%	14.5%	
Steel distributors	18.2%	12.7%	
Total operations	19.1%	19.2%	
<i>Segment Operating Profits as a % of Revenues</i>			
Metals service centers	8.0%	6.8%	
Energy tubular products	7.3%	8.3%	
Steel distributors	11.1%	8.2%	
Total operations	7.3%	6.7%	

*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 the first quarter of 2008 and 2007 is found in the section that follows.

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 and we anticipate continued increases from our mill suppliers throughout the second quarter of 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. Demand softened in the fourth quarter of 2006 and has remained relatively stable since then. Excluding tons shipped by JMS Russel Metals, tons shipped for the first quarter of 2008 are above the fourth quarter of 2007 and are approximately the same as those of the first quarter of 2007.

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 and with the addition of the JMS Russel Metals operations we have an increased presence in the U.S.

The appreciation of the Canadian dollar compared to the U.S. dollar for the periods reported have reduced revenues and operating profits of our U.S. operations for 2008 when converted to Canadian dollars for reporting purposes.

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 March 31, 2008  
Compared to Three Months Ended March 31, 2007***

Revenues for the three months ended March 31, 2008 increased by \$38.6 million, or 10.6%. Excluding JMS Russel Metals, revenues for the three months ended March 31, 2008 were approximately the same as the three months ended March 31, 2007. The average selling price of steel for the three months ended March 31, 2008 was approximately 5% lower compared to the selling price for the three months ended March 31, 2007. The average selling price of metal for the first quarter of 2008 is 2% higher than the fourth quarter of 2007. During the first quarter of 2008, the mills increased the price of steel, which resulted in increased pricing to our customers. The mill price of steel has continued to increase month over month and certain products are projected to reach all time highs during the second quarter of 2008.

Overall tons shipped, excluding JMS Russel Metals, for the three months ended March 31, 2008 were approximately the same as those shipped in the three months ended March 31, 2007. Tons shipped declined most significantly in the Atlantic region and British Columbia whereas the Williams Bahcall operation had a significant increase in tons that offset those declines. British Columbia has been impacted by reduced demand in the forestry sector. Williams Bahcall's customers include a small group of equipment manufacturers who have had increased production in the first quarter of 2008. Tons shipped in the first quarter of 2008 are up approximately 6% compared to the fourth quarter of 2007.

Gross margin as a percentage of revenues was 22.0% for the three months ended March 31, 2008. We estimate that the impact of the new accounting standard for inventory decreased gross margins approximately 3%. Applying this 3% reduction to the March 31, 2007 gross margin, the gross margin percentage has increased approximately 1% for the three months ended March 31, 2008 compared to the three months ended March 31, 2007.

Gross margins were higher in the three months ended March 31, 2008, as the average cost of sales were lower than that reported for the three months ended March 31, 2007. The spread between selling price and inventory cost increased in the first quarter of 2008. Cost of goods sold for the first quarter of 2008 are approximately 14% below our cost of goods sold in our highest quarter in 2004, which was the last peak in steel pricing.

Operating expenses in our metals service centers segment decreased by \$5.7 million, for the first 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 first quarter of 2008 approximate those of the first quarter of 2007.

Metals service centers operating profits for the three months ended March 31, 2008 of \$32.1 million were \$7.3 million higher than the same period in 2007, mainly related to higher gross margins and the acquisition of JMS Russel Metals.

## **Energy Tubular Products**

### **a) *Description of operations***

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

### **b) *Factors affecting results***

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

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 product. In 2007, rig activity declined to levels lower than those experienced at any time in the last 10 years and this continued during the first quarter of 2008.

Pricing is influenced by overall demand, trade sanctions and product availability. Trade sanctions are initiated either by steel mills or government agencies in North America. Trade sanctions 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 initiated actions against Chinese pipe either at the end of 2007 or early in 2008. This has helped to improve pricing and reduce inventories in the sector.

Our Canadian operations are affected by the U.S. dollar exchange rate since some products are sourced outside Canada and are priced in U.S. dollars. The appreciation of the Canadian dollar compared to the U.S. dollar for the periods reported have reduced revenues and operating profits of our U.S. operations for 2008 when converted to Canadian dollars for reporting purposes.

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, impacted the level of oil and gas rig activity, oil sands activity and investment in this sector during the second half of 2007. This continues to cause uncertainty during 2008, although recent suggested changes to the royalty regime and higher gas prices should increase drilling activity.

Oil and gas drilling in Western Canada usually peaks during the period from October to March. Revenues for the first quarter of 2008 were a record high for our energy tubular products segment. Activity in the oil sands of northern Alberta and line pipe volumes in the U.S. have offset declines in oil and gas drilling in Western Canada. As these activities are not as seasonal as oil and gas drilling we have experienced stronger activity in the period from August to March resulting in the second quarter being our seasonally low period.

**c) *Energy tubular products segment results -- Three Months Ended March 31, 2008  
Compared to Three Months Ended March 31, 2007***

Revenues increased 19.3% to \$213.5 million in the three months ended March 31, 2008 compared to the three months ended March 31, 2007. The increase in revenues in 2008 mainly relates to higher volumes sold to the oil and gas drilling industry in our U.S. operations and our Canadian operations that service the oil sands of northern Alberta. Revenues would have been 6% higher if our U.S. operations had been translated to Canadian dollars at the exchange rate in effect for the first quarter of 2007.

Our two operations in Western Canada servicing the oil and gas drilling activity had volumes in the first quarter of 2008 comparable to the first quarter of 2007.

Gross margin as a percentage of revenues was 13.3% for the three months ended March 31, 2008, a decrease from 14.5% for the three months ended March 31, 2007. The lower margin mainly relates to higher volumes being sold at lower prices in our unit servicing the oil sands.

Operating expenses were higher by \$1.7 million for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 mainly related to expenses moved between cost of goods sold and operating expenses as a result of the new accounting standard.

Operating profits increased by \$0.8 million to \$15.6 million for the first quarter of 2008, compared to the same period in 2007. The increase in operating profits was due to higher volumes.

**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 the first quarter of 2008 and 2007 is found in the section that follows.

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

The appreciation of the Canadian dollar compared to the U.S. dollar for the periods reported have reduced revenues and operating profits of U.S. operation for 2008 when converted to Canadian dollars for reporting purposes.

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

**c) Steel distributors segment results -- Three Months Ended March 31, 2008  
Compared to March 31, 2007**

Steel distributors revenues decreased 31.6% to \$96.0 million for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 due to lower volumes and the impact of the change in the Canadian dollar versus the U.S. dollar. Volumes were lower due to strong international pricing and demand which resulted in material flowing to areas outside North America. Approximately 7% of the decline in revenues relates to lower exchange rates on our U.S. steel distributor operations converted to Canadian dollars for reporting purposes.

Gross margin as a percentage of revenues of 18.2% for the three months ended March 31, 2008 improved from 12.7% for the three months ended March 31, 2007. Increased selling prices for product held in inventory by the steel distributor operations resulted in higher margins.

Operating expenses were \$0.5 million higher for the first quarter of 2008 compared to the first quarter of 2007, related to foreign exchange losses offset by lower variable compensation based on profitability. The foreign exchange losses relate to embedded derivatives on purchases outside North America by the Canadian steel distributors operation. The new financial instruments accounting standard we adopted January 1, 2007, considers 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. This loss is reversing a portion of the gain reported in 2007.

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

Operating profits for the three months ended March 31, 2008 were \$10.7 million, which is \$0.8 million lower than the three months ended March 31, 2007, due to lower volumes and the impact of the lower exchange rate for translation of our U.S. operations to Canadian currency.

**Corporate Expenses -- Three Months Ended March 31, 2008  
Compared to Three Months Ended March 31, 2007**

Corporate expenses are higher due to a \$1.7 million increase in stock-based compensation expense. In 2008, we issued stock options during the first quarter whereas in 2007 we issued stock options in the second quarter. The expense for the second quarter of 2008 related to stock options will be approximately \$2.6 million less than the second quarter of 2007.

**Other -- Three Months Ended March 31, 2008  
Compared to Three Months Ended March 31, 2007**

Other revenues and income represents the results of our bulk commodities handling terminal in Thunder Bay, Ontario. Revenues and operating profits for the first quarter of 2008 approximate those recorded in the first quarter of 2007.

**Consolidated Results -- Three Months Ended March 31, 2008  
Compared to Three Months Ended March 31, 2007**

Operating profits from operations were \$52.1 million, which is \$6.1 million higher in the three months ended March 31, 2008, compared to the three months ended March 31, 2007. The addition of JMS Russel Metals in September 2007 and higher margins in the metals service centers were the main contributing factors for this improvement. The change in foreign currency translation of our U.S. operations reduced our first quarter operating profits by approximately \$3 million.

**Interest Expense**

The following table shows the components of our interest expense.

<i>(millions)</i>	Quarters Ended March 31	
	2008	2007
Interest on long-term debt	\$ 3.8	\$ 3.9
Other interest (net)	(1.7)	(2.1)
Total interest	\$ 2.1	\$ 1.8

Consolidated interest expense for the three months ended March 31, 2008 increased by \$0.3 million to \$2.1 million compared to the three months ended March 31, 2007.

**Unrealized Loss on Investment**

Prior to August 23, 2007, a portion of our cash and cash equivalents was held in non-bank Canadian asset-backed commercial paper. On August 23, 2007, we were notified that the principal of \$11.0 million was not able to be repaid due to a disruption in the Canadian market for asset-backed commercial paper. The Montreal Group, representing banks, asset-backed commercial paper providers and major investors, requested that we, along with other participants, agree to a standstill agreement. On April 25, 2008, the investors voted in favour of the 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 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 A1 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 \$2.9 million was recorded in the three months ended March 31, 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. Due to the significant movement in the Canadian dollar versus the U.S. dollar and the reduction in the U.S. prime rate for interest, we determined that a portion of our hedge was ineffective and a loss of \$0.3 million was recorded.

## **Income Taxes**

Our provision for income taxes for the first quarter of 2008 was \$17.6 million, which was \$2.1 million higher than the first quarter of 2007, related to higher earnings. For the three months ended March 31, 2008, our income tax rate was 37.6%. The rate increased due to non-deductible expenses related to stock options issued and asset-backed commercial paper written down in the first quarter of 2008. We estimate our normalized effective income tax rate to be approximately 34% for 2008.

## **Net Earnings**

Net earnings for the first quarter of 2008 were \$29.2 million compared to \$28.7 million for the first quarter of 2007. Basic earnings per common share for the first quarter of 2008 were \$0.46 compared to \$0.46 for the first quarter of 2007. Our higher net earnings in 2008 included earnings from the acquisition of JMS Russel Metals and higher gross margins in metals service centers. The first quarter of 2008 was impacted by higher stock-based compensation expense and a write-down to fair value of our investment in asset-backed commercial paper not reported in the first quarter of 2007 representing a \$0.07 per share reduction in earnings. In addition, the lower exchange rate used to translate our U.S. operations reduced the first quarter of 2008 earnings \$0.03 cents compared to the earnings for the first quarter of 2007.

## **Shares Outstanding and Dividends**

The weighted average number of common shares outstanding for the first quarter of 2008 was 63,088,828 compared to 62,397,789 for the first quarter of 2007. The increase relates to employee stock options exercised. As at March 31, 2008 and May 12, 2008, we had 63,161,792 common shares outstanding.

We have returned a portion of our earnings to our shareholders by paying common share dividends of \$28.4 million in the first quarter of 2008 compared to \$25.0 million in the first quarter of 2007. The increase relates to additional shares outstanding and the increased dividend rate. We paid a cash dividend of \$0.45 per share for the first quarter of 2008 and \$0.40 per share for the first 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 \$398 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.

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. To date we have not purchased any shares.

## EBITDA

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

<i>(millions)</i>	Quarters		Twelve Months	
	Ended March 31, 2008	2007	Ended March 31, 2008	2007
Net earnings	\$ 29.2	\$ 28.7	\$ 110.1	\$ 150.0
Provision for income taxes	17.6	15.5	62.2	79.6
Interest expense, net	2.1	1.8	7.4	5.4
Earnings before interest and income taxes (EBIT)	48.9	46.0	179.9	235.0
Depreciation and amortization	5.7	4.9	21.2	20.1
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	\$ 54.6	\$ 50.9	\$ 200.9	\$ 255.1

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 \$4.3 million for the first quarter of 2008 compared to \$3.7 million in the first quarter of 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 \$5.4 million for the three months ended March 31, 2008 and \$4.7 million for the three months ended March 31, 2007. The increase relates to depreciation on additional assets acquired with JMS Metal Services.

### Liquidity

At March 31, 2008, we had cash and cash equivalents of \$199.6 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 March 31, 2008, current assets represented 80% of our total assets versus 79% at December 31, 2007. Total assets were \$1.5 billion at March 31, 2008 and \$1.4 billion at December 31, 2007.

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

Inventory turns improved in all segments in the first quarter of 2008 compared to the fourth quarter of 2007. Reductions in inventory balances generated cash of \$12.7 million. All segments are monitoring inventories to maintain levels required to service current 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.

<i>Inventory Turns</i>	<b>Quarter Ended</b>				
	<b>Mar. 31 2008</b>	<b>Dec. 31 2007</b>	<b>Sept. 30 2007</b>	<b>June 30 2007</b>	<b>Mar. 31 2007</b>
Metals service centers	<b>4.5</b>	<b>4.4</b>	<b>4.2</b>	<b>4.0</b>	3.9
Energy tubular products	<b>3.9</b>	<b>2.6</b>	<b>3.0</b>	<b>2.4</b>	2.7
Steel distributors	<b>4.2</b>	<b>3.1</b>	<b>3.8</b>	<b>3.3</b>	4.5
Total operations	<b>4.2</b>	<b>3.5</b>	<b>3.7</b>	<b>3.3</b>	3.6

Metals service centers increased inventory during the first quarter of 2008 compared to the fourth quarter of 2007, as inventories were at a seasonally low level at the end of 2007. Excluding JMS Russel Metals, inventory levels in service centers at March 31, 2008, were lower than those at March 31, 2007. 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 March 31, 2008 was 4.3 turns and the average for Canadian based companies was 3.3 turns.

Our energy tubular products segment has reduced inventory levels compared to December 31, 2007 and March 31, 2007.

The improvement in turns in our steel distributors segment relates to lower inventories during the first quarter of 2008, which improved inventory turns. Inventories have declined as North American imports have reduced due to higher prices in areas other than North America. The decline in inventories matched the decline in volumes.

The other major components of working capital are accounts receivable and accounts payable. Accounts receivable as at March 31, 2008, increased \$71.3 million since December 31, 2007, as a result of higher revenues compared to the fourth quarter of 2007. Accounts payable increased \$55.7 million in the three months ended March 31, 2008, which mainly relates to higher trade payables as volumes improved and steel prices increased over the fourth quarter of 2007.

During the three months ended March 31, 2008 we made income tax payments of \$10.2 million.

During the three months ended March 31, 2008, we utilized cash of \$4.3 million on capital expenditures and \$28.4 million on common share dividends. During the three months ended March 31, 2007, we utilized cash of \$3.7 million on capital expenditures and \$25.0 million on common share dividends.

## Free Cash Flow

<i>(millions)</i>	Quarters Ended March 31,	
	2008	2007
Cash from operating activities before working capital	\$ 40.8	\$ 32.7
Purchase of fixed assets	(4.3)	(3.7)
	\$ 36.5	\$ 29.0

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 March 31, 2008, we had cash and cash equivalents, net of outstanding cheques, of \$199.6 million. In March 2006, we issued 11 million common shares for net proceeds of \$271.4 million resulting in cash, which has been invested in short-term investments until a suitable acquisition or other use of cash occurs. On September 28, 2007, \$114 million of cash was used to acquire JMS Russel Metals.

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

<i>(millions)</i>	Amortized Cost or Fair Value	
	March 31, 2008	December 31, 2007
Long-term debt		
6.375% US\$175 million Senior Notes due March 1, 2014	\$ 176.3	\$ 169.0
Capital leases		
Arkansas development bonds, maturing 2014 to 2017	6.8	6.8
Computer equipment, maturing 2010	0.3	-
	183.4	175.8
Current portion	1.1	0.9
	\$ 182.3	\$ 174.9
Obligations under cross currency swaps		
Foreign exchange difference on US\$100 million	\$ 29.0	\$ 33.0
Additional fair value of cash flows to terminate swap	7.0	6.5
	\$ 36.0	\$ 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

<b>As at March 31, 2008 (millions)</b>	Russel Metals Facility	U.S. Subsidiary Facility	Total
Bank loans	\$ -	\$ -	\$ -
Cash net of outstanding cheques	180.8	18.8	199.6
Cash	180.8	18.8	199.6
Facilities availability	200.0	51.4	251.4
Letters of credit	46.7	24.2	70.9
Undrawn facilities	153.3	27.2	180.5
Total cash and undrawn facilities	\$ 334.1	\$ 46.0	\$ 380.1

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 March 31, 2008, we had no borrowings and had letters of credit of \$46.7 million. At March 31, 2007, we had no borrowings and had letters of credit of \$86.4 million under this facility.

In addition, a U.S. subsidiary has its own one-year bank credit facility. The maximum borrowing under this facility at March 31, 2008 was US\$50 million. At March 31, 2008, this subsidiary had no borrowings and had letters of credit of US\$23.5 million. At March 31, 2007, this subsidiary had no borrowings and had letters of credit of US\$20.1 million.

Cash generated from operating activities before working capital changes was \$40.8 million for the three months ended March 31, 2008 and was \$32.7 million for the three months ended March 31, 2007.

Based on cash, cash equivalents and our bank facilities, we have access to approximately \$380 million of cash based on our March 31, 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. We believe we have the ability to significantly increase the bank facility, if required.

### Contractual Obligations

As at March 31, 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 in the financial statements for obligations under each in the next five years.

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 March 31, 2008 exchange rate, we would incur an obligation of \$29.0 million in addition to our long-term debt obligation of \$179.9 million. The fair value of our swaps includes an additional obligation of \$7.0 million, which represents the fair value of payments for the remaining life of the debt if we were to extinguish the swaps at March 31, 2008.

## **Off-Balance Sheet Arrangements**

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

We have multiple defined benefit pension plans in Canada, as disclosed in Note 17 to our 2007 annual consolidated financial statements. In the first quarter of 2008, we contributed approximately \$0.5 million to these plans. We expect additional contributions of approximately \$2.2 million during the remainder of the year.

## **Accounting Estimates in 2008**

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 March 31, 2008 is consistent with the level at December 31, 2007.

### *Inventories*

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

Other areas involving significant estimates and judgements include:

#### *Income Taxes*

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

#### *Employee Benefit Plans*

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

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

#### *Investment in Asset-Backed Commercial Paper*

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

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 may change in future periods as more information becomes available.

#### **Controls and Procedures**

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

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

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

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

No changes were made in our disclosure controls or our internal control over financial reporting during the first 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 timing and extent of future price changes from the steel producers and their impact on us can not be predicted with any certainty due to the inherent cyclical nature of the steel industry.

**Outlook**

Steel prices throughout the world have remained strong to date in 2008. Although it is very difficult to predict steel prices, the increased level of producer consolidation provides us with confidence that the eventual drop in steel pricing levels will flatten out at a higher price than we have seen in the past. We believe that this means higher peaks and higher troughs, both of which bode well for Russel Metals.

Margin improvements in the metals service centers and steel distributors segments experienced in March 2008 are expected to continue into the second quarter. Our energy tubular products segment has entered into the seasonally slower spring break up period. We anticipate a modest recovery in margins and demand in our drilling operations in the second half of 2008 compared to 2007 and continued strength in our U.S. line pipe operations and our Canadian operations servicing oil sands projects.

Overall, we are optimistic that we will see continued margin improvement in the second quarter of 2008, but remain uncertain about demand. Based on higher steel pricing resulting in higher margins, we anticipate significantly higher earnings in the second quarter of 2008 versus the first quarter of 2008.

May 12, 2008